

As economic recovery drives prices back

Oil producers, consumers meet on market instability

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LONDON (AFP)

The International Energy Forum, which groups the world's top oil producers and consumers, meets Tuesday in Saudi Arabia as economic recovery drives prices back to levels last seen before the 2008 global financial crisis.

The meeting also comes amid rising political tensions across the Middle East which forced prices even higher on Monday, with benchmark Brent crude topping \$105 a barrel on concerns supplies could be disrupted by violent unrest.

Ministers from the IEF's some 90 member states, accounting for 90 percent of global oil production and consumption, are due to sign a charter in the Saudi capital Riyadh on boosting cooperation and reducing market volatility.

"Fruitful dialogue"

At its previous meeting in Mexico in March 2010, the IEF agreed to step up dialogue with the aim of improving transparency on the energy markets so as to reduce price volatility.

These objectives, members decided, should be enshrined in a charter and the meeting in Riyadh, where the IEF is headquartered, is due to endorse it.

The charter is based on signatories committing to "an open, more informed and fruitful dialogue," says Noe van Hulst, IEF Secretary General.

"One key issue now is to do whatever we can collectively to mitigate energy market volatility. A crucial part of this effort is the IEA/IEF/OPEC cooperation program," van Hulst said referring to the oil cartel and the International Energy Agency, the grouping of developed world consumer nations.

Oil prices, after tumbling through 2008 and into 2009, have picked up steadily as the global economy has recovered.

Prices spiked Monday above \$105 per barrel for Brent crude, a major benchmark, as markets worried additionally at the possible threat to supply from spreading political unrest in the Middle East.

Higher energy costs have begun to drive rising inflation, sparking concerns that they could force countries to hike interest rates to rein in prices -- a move which would also hurt growth.

At the same time, soaring oil and other commodity prices have stoked suspicions that the markets are being driven by speculators rather than reflecting underlying demand and supply, prompting fresh calls for regulation.

Last year, the IEF put this topic on the Riyadh agenda and it has become even more topical given the rise in the energy and other markets in the past 12 months.

Market failures

France, current holder of the Group of 20 presidency, has made tackling this problem one of its priorities and last month Pierre Lellouche, a senior French official responsible for foreign trade, made the point at a Riyadh meeting.

"When volatility comes from market failures, insufficient transparency both on physical and financial markets and possible market abuse and market manipulation on the financial side, then we have the responsibility to fix it," Lellouche said.

"The oil market at the beginning of 2011, where volumes traded, including derivatives, are worth some 30 times the face value of underlying physical assets, raises new risks, and thus calls for new responses," he said.

Analysts say these market developments have put Saudi Arabia, the largest oil producer in OPEC and a key player in global energy policy, on the spot because traditionally as a moderate it has sought to keep supply and demand in balance.

Torbjorn Kjrus, oil market analyst of DnB NOR Markets, said Saudi Arabia "now faces a difficult

dilemma heading into the International Energy Forum.

"With prices above \$100 (it) ... will face hard pressure to increase production from the big consumer countries," Kjus said.

Against this backdrop, what Saudi Arabia and other members of OPEC, which pumps about 40 percent of global oil supplies, say in Riyadh will be closely followed.

OPEC decided to keep its production target unchanged at its last regular meeting in December and is not due to meet again until June.

Saudi oil minister Ali al-Naimi last month said he expected oil at \$80 a barrel in 2011, and said OPEC could raise output to meet an expected two percent increase in oil demand this year.

But several OPEC members such as Libya and Iran have taken a much harder line than Riyadh, welcoming higher prices.