Riyadh sees IEF come of age

Saudi Arabia has achieved a long sought-after goal — a firm footing for the International Energy Forum (IEF).

The IEF charter signed by 86 countries in Riyadh, Saudi Arabia, on 22 February enhances the forum's status as a framework for interaction between producers and consumers. The event is a triumph for Saudi Arabia, which has succeeded in convincing the world's major consumers to demonstrate a political commitment to communicating with producers through the IEF by signing its charter and assuming membership responsibilities (*AGM, 21 February, p2*).

The IEF has existed for 20 years as a forum for consumer-producer talks. But Saudi Arabia boosted its standing by calling for an IEF secretariat, which was established in Riyadh in 2003. The Saudis have remained a driving force behind the IEF, which they see as an important mechanism for influencing global oil market policies. The dialogue it facilitates will remain informal, and statements from IEF ministerial meetings are non-binding. But Riyadh has managed to elevate the role and profile of a forum that may not always reach consensus between producers and consumers, yet at least identifies areas of agreement and divergence.

'Turning point'

Saudi oil minister Ali Naimi says the charter signing represents a "turning point in the producer-consumer relationship, acknowledging that dialogue and co-operation are not a choice but a necessity". Saudi Arabia views the charter as a culmination of the evolution in relations between producers and consumers, marking what Naimi calls "a new era of constructive relationships and joint effort". The move to bolster the IEF has been spurred by memories of 2008, when oil prices topped $140/bl, only to fall to around $35/bl months later. Coincidentally, during the signing ceremonies, oil prices were rising above $100/bl amid unrest in Arab countries, particularly Libya (*see p2*).

Crafting a charter took months of negotiations, particularly with a sceptical US. A steering committee led by Saudi assistant oil minister Prince Abdul Aziz bin Salman presented recommendations to IEF members in Cancun in March last year (*AGM, 26 April, p4*). The IEF appointed a broader, 25-member steering committee co-chaired by Abdul Aziz to prepare the charter, which lays out financial responsibilities for members. "Before, there was no budget to which members were committed," Abdul Aziz says.

Washington is satisfied with the final charter. "The IEF has matured to the stage, and its mission has been clarified to the point, where over 80 governments are willing to sign up to this charter," a US official tells *Argus*. The IEF aims to serve as a "neutral facilitator" in the producer-consumer dialogue. But Saudi influence is likely to remain strong. The IEF secretariat is based in Riyadh, although Dutch national Noe van Hulst serves as secretary-general. The US says it sees no indications that the IEF's location is "chilling free discourse".

After its "turning point" in Riyadh, Naimi hopes that the IEF will "contribute to energy market stability, curb unjustifiable price fluctuations and eradicate confusion and uncertainty about the future of energy". These objectives have long been central strands of Saudi energy policy. Greater dialogue can enable producers and consumers to confront two issues — "short-term volatility of the oil market, and long-term uncertainty in the supply side and the demand side", Abdul Aziz says. Van Hulst says the charter allows the IEF to call an extraordinary meeting whenever a significant number of countries deem one to be necessary. "This creates a vehicle to act faster than perhaps in the past," he says.

Not all IEF members agree on the definition of volatility. Energy officials from consumer nations say price signals are important and that volatility is inherent in energy markets. Similarly, the IEF has been unable to form a consensus around Opec's view that speculators drive markets. Abdul Aziz hopes that the IEF can help to "reduce the role of speculators in pushing the market into illusions".

But such views on speculation are refuted by other IEF participants and the organisation's expert group failed to agree with the notion that financial flows drive oil prices. IEA executive director Nobuo Tanaka estimates that demand outstripped supply by around 1.1mn b/d last year. "All this demand surge explains a lot of the price hike," Tanaka says.

The IEF has compromised by calling for more analysis of oil price formation. UK energy minister Charles Hendry says he wants to know "the role that speculation has in this mix — the extent to which prices are being driven up by actual factors or by speculators involved in the market. The forum helps us understand the range of factors."

'Differences are inevitable'

The IEF aims to work with the IEA and Opec to provide better energy data. It will strengthen the renamed Joint Organisations Data Initiative (Jodi). But harmonising oil market outlooks could be uncomfortable. The IEA and Opec have been at odds over recent outlooks.

Differences in outlook triggered a row between the IEA and Opec in January. Opec secretary-general Abdullah al-Badri accused the IEA of "supplying the world's media with unrealistic assumptions and forecasts". The outburst came after the IEA warned that oil prices were in a "dangerous zone" and called on producers to be flexible in supplying more oil (*AGM, 24 January, p1*). "By the nature of the organisations, some differences are inevitable," Tanaka says.

Saudi Arabia and Opec have long sought a "demand roadmap" to underpin investment in capacity. Naimi now says co-operation between the IEA, the IEF and Opec over projections for growth in oil consumption has led to "assurance" over future demand. "That is why at least Saudi Arabia has made a substantial investment in production capacity," he says. Tanaka says that if medium-term economic growth is robust, "spare capacity in Opec may decline, so we need more investment".