

**From Paris to Riyadh: The Evolution of Oil Producers and Consumers
Relationship**

From Mistrust to Building Common Future

By

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Before 1950, petroleum was already an important and strategic international commodity. Oil's critical role in fueling modern economies and in enabling countries to project military and economic power beyond their own boundaries was well recognized as far back as the early 1900s. Economic and military might depended on access to oil, as well as the ability of countries to deny access to its enemies. Therefore, it was no surprise that access to oil figured prominently in the strategic planning of both the Axis and the Allies during the Second World War, and that the ability of the Allies to limit the Axis countries' access to oil was a major factor contributing to the latter's ultimate defeat.

Prior to World War II, the major oil companies from the U.S. and Europe controlled the vast majority of the world's oil supplies. Their dominant position provided them with significant power over the production, distribution and pricing of world crude supplies. By contrast, most producing countries had little ability to influence the prices they received for their natural resources. The world was awash in oil as new discoveries vastly outpaced the growth in oil

demand. With their control over supply and distribution, the majors became the price setters while producing countries were usually relegated to being price takers.

The perception in many producing countries was that they were being exploited by the majors who were seen as paying far too little for the crude they lifted. The simmering resentment became a highly charged political issue in several countries, eventually giving birth to a new resource nationalism which was first seen in the 1930s in Mexico and Venezuela. It was a preview of the difficult path consumer and producer relations would take in the post-war period.

During the fifties and sixties, the growing divergence between the interests of oil producers and consumers was becoming readily apparent, and it would continue to widen during the seventies and eighties. This trend would only be reversed during the nineties and the early years of this century, when an effort was made to narrow the gap through increased dialogue and understanding between consuming and producing country governments.

Many global developments contributed to the creation of this producer-consumer gap. First; global consumption of oil increased from 7 million barrels per day (MBD) in 1945 to 22 MBD in 1960. Second; while traditional suppliers of oil such as the U.S. and the Soviet Union continued to increase output, production from other areas (mainly poor, developing countries from Latin America, Asia and Africa) was increasing rapidly. At the same time, political tension between the West and East was on the rise. Third World nationalism was growing and developing nations were working to gain more political and

economic power and greater independence. For example, the Non-Allied Movement was created in 1955 as a new block independent from the influence of either the Soviet Union or the United States.

During this period, many developing countries, rightly or wrongly, perceived the international oil companies as acting primarily in the interests of Western powers. There was a growing belief that the only way for developing countries to counter the influence of western oil companies was through collective action. As a result, a number of oil producing countries joined together to promote their shared interests through the exchange of information and the co-coordinating of policies. Their combined effort to develop a united front led to the establishment of OPEC in 1960; a development which marked the first turning point in the relationship between producers and consumers.

During the sixties, OPEC did not make headlines, but with the end of the decade, the oil market had changed. Oil demand was increasing rapidly from 22 MBD in 1960 to 47 MBD in 1970. Fixed, low oil prices failed to attract new investment to the petroleum sector, and the growth in production capacity failed to keep pace with demand growth. Therefore, by the early seventies oil producers started to gain the upper hand. As a result, they were able to create a new pricing regime under their control, which they believed would begin to provide a fair price for their oil resources.

The nationalization of many oil industries during the sixties and seventies, the use of oil for political goals during the 1973 Arab-Israeli October War and the rapid increase of oil prices together formed the second turning point in the evolving relationship between producers and consumers. It should be mentioned

that oil has been used for political goals with no or limited success by both producers and consumers throughout the last century—a trend which continues today. But the so-called Arab Oil Embargo was a unique case due to the existing global political situation: the cold war, North-South divisions, the tight global oil market, and the military conflicts in the Middle East and South East Asia. Therefore, the embargo took on a global dimension, even though it was really an issue involving few and limited number of countries (two Arab nations pitted against two Western countries).

Because of the embargo and, importantly, the global political situation, the major western industrialized countries (at the suggestion and with the encouragement of then-US Secretary of State Henry Kissinger) created the International Energy Agency (IEA) in 1974. The IEA's mandate was to protect western energy interests, and to reduce the West's reliance on oil, especially imported oil sourced from OPEC countries. With the establishment of the IEA, the politics of oil took on a new dimension. It was no longer seen as a confrontation between oil producers and the major oil companies (as the case during the sixties) or a confrontation between limited number of producers and consumers who engaged in a political dispute. It was now an issue between different groups or blocs or countries; i.e. between producers and consumers.

This was the third turning point in the producer-consumer relationship, one that ushered in a new phase of doubt, mistrust and indeed conflict and contempt. The chilly atmosphere between IEA and OPEC (or consumers and producers as they became) continued during the rest of the seventies and into the eighties, even when oil prices collapsed in 1986 and oil producers lost a large part of their market power.

The summer of 1990 witnessed the fourth turning point in the relationship between producers and consumers, when on August 1, 1990, Iraq invaded Kuwait. Both were major producers and members of OPEC, and at a stroke the global market lost about 5 MBD, or about eight percent, of total global production. Unsurprisingly, oil prices started going up daily.

Furthermore, it was OPEC countries, particularly Saudi Arabia and other Gulf countries, which were able to replace the missing barrels lost from Iraq and Kuwait. Yet were the war to expand beyond Kuwait and Iraq, which was a clear possibility, production from other Gulf countries would be affected. Such a development would necessitate the use of the strategic petroleum reserves which major consuming countries maintain. It was clear that a common interest between oil producers and consumers was emerging, although it received little public recognition.

While Saudi Arabia was willing and able to replace most of the missing oil – it had 3 MBD of spare production capacity – King Fahd of Saudi Arabia was adamant that Saudi's production increase should be done within the context of an OPEC decision. Earlier in 1990, Saudi Arabia, and particularly the King, had been involved in mediating the oil conflict between Iraq on one hand and Kuwait and the United Arab Emirates on the other. Baghdad had accused both countries of violating their quota, thus pushing prices to low levels and damaging Iraq's economic interests. As a result of King Fahd's involvement, an agreement regarding the dispute was achieved during a meeting in Jeddah on July 11, involving Iraq, Kuwait, UAE, Saudi Arabia and Qatar. This agreement was endorsed by all OPEC members two weeks later from July 26-29, just three days before Iraq's invasion of Kuwait.

Shortly after the invasion, Saudi Arabia called for an OPEC emergency meeting. After long debate and strong resistance on the part of some members, the meeting was held in Vienna on August 28. Saudi Arabia demanded that OPEC quotas should be lifted temporarily and member countries allowed to produce whatever they could to replace the oil shortfall. There was less than universal support for the idea, with some members holding out hope that Iraq would withdraw from Kuwait. One OPEC member called on IEA members to use the strategic reserves under their control first, before OPEC used its spare capacity. This message was sent through the international media, and was the first unofficial and indirect communication between an OPEC member and the IEA in response to a supply emergency.

Even today, it is unclear whether that call was a genuine entreaty, or was simply a tactic used as part of OPEC's internal bargaining discussions. Other OPEC members were interested to know the IEA response, however, the majority preferring that OPEC tap its spare capacity before IEA used its strategic reserves. Therefore, the first direct and official communication between an OPEC member and IEA took place shortly thereafter. Prince Abdulaziz bin Salman, then Adviser to the Saudi Minister of Petroleum Mr. Hisham Nazer, took the task of communicating with a high-ranking IEA official, to sound out that organization's views on the issue and to explain the oil market as seen by the majority of OPEC members.

The response of the IEA official was clear: the Agency, as its mandate indicates, would not use the strategic petroleum reserves to influence oil prices, and would tap them only in time of emergency (i.e., an actual shortage of

supply). The IEA immediately issued a statement laying out its position of not using its members' strategic reserve for the time being.

What was more important than the IEA's position was the fact that a taboo was broken, and the common interests between oil producers and consumers started to come into the light.

Therefore, the Iraqi invasion of Kuwait made both producers and consumers realize the obvious fact of the importance of their working more closely together for their own common interests, and in the interest of the global economy at large. It was also a harbinger of additional changes to come, which took place against the backdrop of the collapse of the Soviet Union and the rising economic power of Asian countries. Because of the new and positive relationship between producers and consumers no real shortage of oil supply took place, and the price of oil did not get out of control. Actually, after the liberation of Kuwait, oil prices were lower than prior to the invasion.

Within this new spirit of co-operation, France (which hosts the headquarters of the IEA and which played a respected, moderate role on the international stage) called for a Ministerial meeting of oil producers and consumers (mainly OPEC and IEA). That invitation was the fifth turning point in the relationship between producers and consumers. The meeting took place in Paris in July 1991.

Some countries were not convinced of the usefulness of such a meeting, but attended at non-Ministerial level for diplomatic reasons. In any event, the meeting proved to be a great success in terms of further reducing the mistrust between the two groups, though it was still uncertain where the relationship

should or would go. Furthermore, there was little enthusiasm for the continuity of the dialogue on the part of some producers and consumers. Their feeling was that since the level of mistrust had been reduced and the relationship normalized, there was no need for a next step. Despite these objections, there was a decision to call a subsequent meeting.

Norway, which is both a major oil producer and a member of the IEA, and which maintains a balanced policy and a vested interest in a close relationship between producers and consumers, invited participants to another meeting the following year. While the Solstrand meeting of 1992, and subsequent meetings in 1994 (Spain), 1995 (Venezuela), and 1996 (India) were positive because they were forums for continued communication and dialogue, they broke little new ground in bridging the interests of producers and consumers. Because of the hard work and enthusiasm of the government of South Africa, the Cape Town meeting of 1998 attracted more attention and a higher level of participation, which created a feeling that the dialogue should go to a higher level, or run the risk of growing weaker.

Saudi Arabia's invitation to host the following meeting in 2000 was accepted. This was a major challenge for the Ministry of Petroleum and Mineral Resources which was in charge of organizing the meeting. The challenge was to develop the necessary foundation for enhanced co-operation in the future. Failure to do so would have undermined continued progress in bringing consumers and producers closer to a common understanding.

Under the close direction of H.E. Mr. Ali Al-Naimi, the Minister of Petroleum and Mineral Resources a committee was established within the Ministry headed

by H.R.H. Prince Abdulaziz bin Salman to achieve this goal. After much deliberation, some momentous decisions were made. First, the name of meeting was changed from a “Producers-Consumers Dialogue” to the “International Energy Forum,” to better reflect the broader scope of the meeting. Second, it was decided to change the previous format of formal speeches given by official representatives to one that focused on creating a true dialogue. Therefore, oil experts were commissioned to do studies about specific aspects of the oil market. The studies would be the focus of the Ministerial discussions. Third, great effort was made to ensure that all countries would be represented at the Ministerial level.

Beside these three structural adjustments, two other important developments came out of the Riyadh meeting. First, King Abdullah, then Crown Prince, called for the establishment of a Permanent Secretariat for the IEF. Second, there was a realization that one of the major problems facing the international oil market is the lack of accurate, transparent and comprehensive data, which requires an international effort.

The King’s initiative generated mixed opinions. While there was general support for the King’s initiative, there were doubts as to how the Permanent Secretariat would be implemented and the participants largely left it to Saudi Arabia to handle the development of that body.

Transforming a new concept into reality requires hard work and strong commitments. For the Permanent Secretariat of IEF, the Ministry of Petroleum created an internal committee with three interrelated tasks: 1) Co-ordinate with the relevant authorities inside the Kingdom, 2) Collaborate with other

governments and organizations (mainly the IEA and OPEC), and 3) Draft the by-laws and structure and functions of the new body (mission and framework).

The Ministry of Petroleum co-ordinated with both the Ministry of Foreign Affairs and the Ministry of Interior to ensure that the new body would enjoy all the privileges and immunity that similar international organizations inside and outside the Kingdom have. Since Saudi Arabia offered to host the Secretariat in Riyadh, according to the practice of countries which host international organizations, the Kingdom provided the headquarters at minimal or no cost. Therefore, there was a need as well to co-ordinate with the Ministry of Finance, the Governor of Riyadh Province, and the Riyadh Development Authority. The Ministry of Petroleum had to provide sufficient finances, obtain suitable land for the Secretariat, and build the headquarters in the best possible way. King Abdullah was kept informed of all new developments.

The third task, drafting the by-laws and the functions and the structure of the new body, entailed studying similar organizations and seeking the advice of various experts. Also, the reaction of other interested parties had to be considered. It was not an easy task to create a document which would be accepted by not only producers and consumers, but also by countries who are not always on the best of terms with one other, whether ideologically, philosophically, economically, or in terms of their system and structure of government.

After composing the first draft, it was sent on a confidential basis to some individuals in different parts of the world, seeking their comments and suggestions. Their feedback was integrated into a new draft, which was

presented on a semi-official basis during bilateral and multilateral meetings, especially to OPEC and IEA. A meeting also took place in Riyadh in the fall of 2001 at which the entire project was discussed.

While drafting the by-laws of the new body, officials of the Ministry of Petroleum were also meeting official representatives of many countries and informing them of the development of the project and asking for their support. The majority of countries were supportive of the project, while others adopted a wait and see approach.

All of this work had to finish within one year and a half, with a target of finishing everything before the next International Energy Forum meeting in Osaka, Japan, in September of 2002. The search for the right person to fill the position of Secretary General of the International Energy Forum was given top priority, and the names of several candidates were presented before and during the Osaka meeting.

As hoped, all 60 participating countries endorsed the plan, except for the representative of one country which attempted to block the project for reasons which are not clear even today. During the following month and after close consultations among the major countries (especially OPEC and IEA members), Ambassador Arne Walther from Norway was selected to head the new body. He is a highly respected expert and intellectual with thorough knowledge of both oil and politics, and who has been involved on producer and consumer issues for more than 15 years. He is also from Norway, a major producer of petroleum in Europe which understands the positions of both producers and consumers. In May 2003, the Executive Board of the IEF, which was established during the

Osaka meeting, selected Ambassador Arne Walther to be the first Secretary General.

While the job of creating a Secretariat for the International Energy Forum was moving ahead, the second major issue, developing a Joint Oil Data Initiative (JODI), was also picking up steam. Meetings were held in major cities around the world and with increasing participation and interest by many governments and international organizations. Each meeting built on the progress of preceding sessions. Finally, in 2005 all participants agreed to the idea that the international data initiative (JODI) should be moved from an informal format to a more structured one, which should be part of the Secretariat of the International Energy Forum.

In 2008, at the conclusion of Ambassador Walter's term, Dr. Noé van Hulst was selected by the government board to serve as the second Secretary General of the International Energy Forum (IEF). Dr. van Hulst is a Dutch national who holds degrees in Economics, and has a long record of highly distinguished experience in international economics and energy issues. Most recently he served as director of Long-Term Cooperation and Policy Analysis at the International Energy Agency (IEA) in Paris. Dr. van Hulst's leadership at the IEF has resulted in important milestones, including consolidating the work of the Secretariat and raising global awareness of the IEF's important work in facilitating global energy dialogue.

Without a doubt, changes in global oil and energy industries and relationships are related to the evolution of global political and economic systems. There is also no doubt that commitment and hard work do move a concept to reality. As the world has seen, during the last fifty years the relationship between oil producers and consumers has gone through many stages or turning points, from unilateralism to defending interests, then to conflict and distrust, and finally to working together. This historical evolution provides many critical lessons, and helps to chart a way forward as well.

Since the IEF Secretariat started seven years ago, there have been many accomplishments. The Secretariat is highly regarded internationally and has taken an active role at the global level. The Secretariat has been able to balance its budget through voluntary financial contributions from more than 40 countries, and the Secretariat has attracted a number of talented individuals to work there. The first real test for the idea of cooperation between producing and consuming countries, and for the IEF Secretariat, came about in mid-2008 when oil prices reached high levels that could negatively affect the growth of the world economy in general and damage the economies of developing countries. These price hikes were the result of growing world demand for oil, fears of limited international production capacity and the talk of peak oil. King 'Abdullah ibn 'Abdulaziz coordinated with the British Prime Minister at the time, Mr. Gordon Brown, to hold an extraordinary conference of energy ministers of oil producing and consuming countries with the participation of concerned international organizations and international petroleum companies.

The conference was held in Jiddah in July of 2008 and opened by the Custodian of the Two Holy Mosques, King 'Abdullah ibn 'Abdulaziz with the participation of the Vice Premier of the People's Republic of China, Mr. Xi Jinping, and the British Prime Minister. It gave clear assurances to the international petroleum market that producing and consuming countries, international economic organizations and oil companies are ready and willing to work together for the stability of the international petroleum market. It also assured the petroleum market of the existence of additional production capacities along with the Kingdom's detailed information of its capabilities and ability to raise its production capacity to 15 MMBD if needed. The Kingdom increased production and showed readiness to satisfy any demand for oil by international companies.

The Conference issued the joint declaration of the Kingdom and the IEA and IEF Secretariats which indicated their obligation to cooperate for the stability of oil markets and exchange of information.

The conference decided to continue discussions concerning the conditions of the international petroleum market, and Britain called for the convening of another conference in London in December 2008.

Following the Jiddah meeting the price per barrel of crude oil dropped from its high of \$145 in July to less than \$31 in December.

The Jiddah and London meetings, along with the petroleum and economic developments that occurred worldwide during that period, highlighted the urgent need to strengthen the IEF Secretariat and to concentrate on research useful to all parties, i.e. countries, companies and organizations, for the avoidance of sharp petroleum price fluctuations. To this end, there was

agreement to set up a higher supervisory committee composed of 11 countries under the presidency of the Kingdom of Saudi Arabia.

The committee headed by HRH Amir 'Abdulaziz ibn Salman, Assistant to the Saudi Oil Minister, held several meetings, conducted a number of workshops, made some studies, sought the help of experts specialized in economic and legal matters and submitted its recommendations, as mandated, to the 12th Ministerial Meeting of the IEF held in Cancun, Mexico, in March 2010.

Based on Conference decisions and recommendations of the Higher Supervisory Committee, the Cancun Ministerial Declaration was issued forming another higher supervisory committee under the presidency of the Kingdom of Saudi Arabia and with 25 member countries. This committee's mandate was to prepare a new IEF charter codifying clear obligations with regard to information and financial responsibilities of all member countries, building better and stronger relationships among IEF, OPEC and IEA regarding information on international petroleum markets, and strengthening the Joint Oil Data Initiative (JODI). The JODI is to be transformed into a full organization.

The Higher Supervisory Committee prepared a draft Charter for presentation to the expanded meeting held in Riyadh on 7 December 2010 and attended by representatives of more than 95 major producing and consuming countries. The IEF Charter was approved and presented for signature to the Ministers of Energy at an extraordinary meeting held in Riyadh on 22 February 2011. The meeting was considered the largest gathering ever of world energy officials, with the participation of 90 countries and 10 international organizations.

The new IEF Charter is the culmination of a remarkable effort in international dialogue and cooperation. It provides a solid new platform from which to deal with the challenges ahead.

Global demand for energy in general and petroleum in particular is increasing year after year as a result of economic growth and increasing prosperity especially in emerging and developing economies. Global centers of petroleum and energy consumption meanwhile are shifting gradually from North America and Europe to Asia.

Today, it is not only important to have enough supply and sustain optimum investment levels. Instead, the world also needs to avoid meaningless fluctuations in price and avoid other sorts of crises to which the market and the oil industry are susceptible. Today's market is not the simple as yesterday's, when producers, consumers and oil companies interacted in a more or less linear arrangement. Instead, there are many more players in the game—a game in which the oil itself is not simply a commodity but also a financial instrument. In addition, today's market is global in nature, meaning that what happens with one commodity affects others, and what happens in one corner of the world can drive events elsewhere around the globe. The recent sub-prime mortgage crisis in the United States, and the ripple effect it produced, is perhaps the best recent example of this sort of complex and interwoven system of global economic relationships.

The new IEF Charter will be a strong instrument serving the ongoing need to reduce uncertainty, improve dialogue and facilitate the exchange of information. Making the fullest use of this instrument, we can reduce market instability,

enhance bilateral and multilateral energy relationships, and continue to strengthen the producer-consumer dialogue for the benefit of all.