



## THE GLOBAL ENERGY DIALOGUE

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The global energy dialogue is never more robust than when a sizeable number of stakeholders are facing a particularly thought-provoking topic. Commitment to the global energy dialogue tends to strengthen when policymakers and industry executives face an issue of common concern. The history of the dialogue has shown this to be true. In 1991, as market actors struggled to manage the volatility of crude prices in the wake of the first Gulf War, a small group of energy ministers agreed that a resolution to the issue was more likely to be found through dialogue than through rhetoric. The first meeting of what would later come to be known as the International Energy Forum took place in Paris in July of that same year. Since then the dialogue has matured significantly, with a permanent secretariat ensuring its development and continuity in line with the tenets of the IEF Charter signed in February 2011.

Does the unconventional revolution represent a topic of equal interest and importance as crude price volatility, which engendered the IEF over 20 years ago? From the perspective of the IEF, the an-

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swer is a resounding yes, given its global reach and the number of “known unknowns” and “unknown unknowns” on technological and strategic fronts. In light of the engagement we have seen on the topic globally, the rise of unconventional has certainly served to stimulate the producer-consumer dialogue.

Regarding natural gas, the increasing availability of unconventional supplies from shale and deepwater deposits is already influencing producer-consumer relationships, yet the end game is hardly clear. Market observers are weighing the likelihood that consuming countries in Asia will continue importing LNG from long-standing suppliers against the possibility that they may seize the opportunity of a more diverse supply base to seek out new sellers or renegotiate existing deals, in a pattern that bears resemblance with Europe.

Many see a natural gas game changer that merits further analysis and dialogue on at least three fronts:

First, it may be the beginning of a trend towards an integrated global gas market, where price differences among North America, Europe and Asia – the three main international gas markets – will decline or disappear altogether, much as it is the case in the oil market.

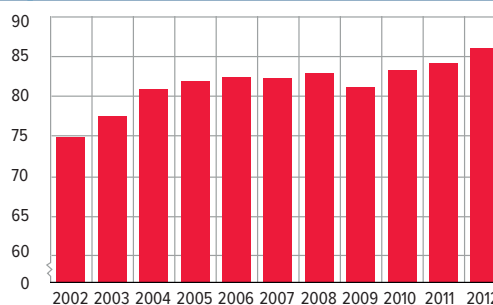
Second, to the extent that the necessary levels of liquidity are reached, it may lead to the establishment of a new pricing mechanism based on a combination of spot transactions and long-term contracts, or at least prompt more widespread interest in the possibility of more flexible long-term contracts.

And third, over the long term, fuel switching in favour of gas is a possibility should its greater abundance trump the price-competitiveness of other fuels, most notably oil.

How likely is the shift from our conventional world of three separate regional gas markets to an “unconventional” one of a single global gas market? How probable is it that the conventional method of pricing gas through long-term contracts in Asia and most of Europe may give way to the less-conventional method of doing so through short-term, spot transactions? Producers and consumers alike have been engaging with each other through neutral platforms such as the Asian Ministerial Energy Roundtable (September 2013, Seoul) to better understand these questions and to craft their policy and commercial responses accordingly. While no definite conclusion has been reached, as consumers would like to observe more flexible contracts and producers prefer the current long-term contract regime, the global energy dialogue has taken on a greater intensity and strengthened as a result.

Turning to crude, the potential impact of light, tight oil (LTO) on global markets has sparked a wave of conversations on the topic and on

### inproduction



World oil production, 2002-2012 (million b/d)

Source: BP Statistical Review 2013



assumptions regarding what the future may hold. Views on the impact that LTO may have on global markets vary widely across the spectrum of experts, with the perspectives of the International Energy Agency (IEA) and OPEC carrying significant weight.

Given their provenance these diverging views cannot be discounted out of hand and merit further analysis. The provision of platforms for dialogue on topics of such global interest and importance is the first step towards the improved understanding that is pivotal to better decision making. To highlight just one such platform for dialogue, the outlook for LTO was discussed at the Fourth IEA-IEF-OPEC Symposia on Energy Outlooks (Riyadh 2014), during the plenary sessions and the coffee breaks as well as in the background paper prepared jointly by the IEF and Duke University.

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In its WOO 2013 report, OPEC projects that LTO supply in the United States and Canada will peak around 2017-2019 – with the largest annual production growth already seen in 2012 – and then gradually decline over the remainder of the projection period. OPEC believes that by 2035, LTO production in the United States and Canada will just slightly exceed the current production level.

In contrast, the IEA projects that the LTO revolution will last longer. It expects LTO supply in North America to plateau around 2025 and not taper off until the beginning of the 2030s. According to the WEO2013, growth in LTO as well as NGLs from shale plays will propel the United States past Saudi Arabia as the world’s largest oil producer by 2015, retaining that position until the beginning of the 2030s.

The sharp contrast in LTO projections may result from different perspectives on the impact of rapid decline rates on field production or assumptions regarding the resource bases and sustainability of investment activity. It could also relate in part to the different definitions of LTO and natural gas liquids. Although the IEA acknowledges the challenges of LTO’s faster decline rates than conventional oil’s and the initial targeting of “sweet spots,” it projects that continuous investment in new rigs and discoveries of new fields, as well as other technological advances, will maintain LTO production at a high level.

While OPEC and the IEA hold different views on the long-term prospects for LTO, they concur in acknowledging the uncertainties about

the future. In its WEO2013, the IEA points out that downside risks may include new LTO plays (beyond the Bakken/Three Forks, Eagle Ford and Permian) being less productive and more expensive to develop, with the possibility of a lower oil price inhibiting the development of LTO. In its WOO2013, OPEC considers a more optimistic LTO supply path in its Upside Supply Scenario, in which existing major LTO plays are productive and more plays are added to the production profile. In this scenario, LTO production from North America will be 2.5 million barrels per day higher than the Reference Case by 2035, though the production is still expected to peak around 2020, earlier than the IEA’s forecast.

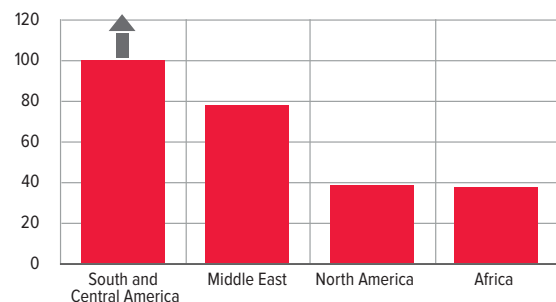
As for LTO resources outside North America, both the IEA and OPEC adopt cautious estimates due to a lack of global commercial experience and a scarcity of thorough and detailed worldwide resource assessments.

Given the potential game-changing impact of unconventional and the number of related yet unresolved questions, we can expect the global energy dialogue to continue to be revitalised by unconventional as the market actors seek each other out to exchange ideas, explore scenarios and jointly shape our collective energy future.

The IEF is tasked with being at the leading edge of the global energy dialogue and is the platform of choice for the promotion of global energy security. While the IEF was founded by ministers for ministers, the forum likewise maintains strong ties with industry through our 60-strong Industry Advisory Committee, which will soon cover a much broader spectrum of the stakeholders in the energy supply chain.

We remain ready, willing and able to do our part to strengthen the global energy dialogue. But the effectiveness of any dialogue is a direct function of the engagement of its participants. Towards that end, let’s talk. ■

## inratio



World regions by oil reserve/production ratio, 2012

Source: BP Statistical Review 2013