

## KEY MESSAGES FROM THE 11th IEF IN ROME, 20-22 APRIL 2008

In terms of participation, the 11<sup>th</sup> International Energy Forum (IEF) in Rome was a big success and most probably the largest gathering of Energy Ministers on the planet. Nearly 75 delegations, of which over 50 ministers, from oil and gas producing and consuming countries engaged in a frank and open dialogue to discuss today's key global energy challenges. In addition 13 international organizations participated, with IEA and OPEC at the highest level. High energy prices and growing concerns about energy security, global warming and energy poverty were intensely debated, both in the conference room and outside in countless bilateral meetings. Although it is hard to keep track of these bilaterals and even less to measure their success, the opportunity that IEF Ministerials offer for this kind of informal exchanges has grown into an important by-product to be acknowledged in its own right. The 3<sup>rd</sup> International Energy Business Forum (IEBF), convening nearly 30 industry executives from both international and national oil and gas companies, preceded the Ministerial and provided a unique opportunity for ministers to also interact with industry leaders..

How can we capture the myriad of results of the IEF in Rome? Let me attempt to do this, largely on the basis of the Closing Statement by Host and Co-hosting Countries (see [www.iefs.org.sa](http://www.iefs.org.sa)). There was in my view quite an impressive consensus about the **main global energy trends**. First, we will see *world energy demand* still grow significantly in the coming decades, mainly driven by economic growth in developing countries and population growth. Even if this may give us some headaches, one should not lose sight of the fact that this is good news because access to energy is key for economic and human development. Second, *fossil fuels* will remain dominant in the energy mix. Renewables are certainly growing rapidly but they have started from a very low base and it will thus take many decades before they take a more prominent share in the energy mix. Third, the world will see increasing *interdependence* between oil and gas producing and consuming countries. Oil and gas trade is growing rapidly and this trend will inevitably continue unabated in the coming decades. As one minister aptly put it: "...interdependence is growing every day. It is higher today than it was 2 years ago at the IEF in Doha, and it will again be higher as we meet in Mexico in 2010". The closing statement by host and co-hosting countries rightly concludes: "Interdependence should be embraced for its potential as a cohesive force underpinning healthy growth of the world economy, fair energy trade, and international co-operation".

The central theme for the 11<sup>th</sup> IEF was "Energy Dialogue to Respond to Global Challenges" and the 11<sup>th</sup> IEF showed how basically all the main energy challenges are global today. The **key global energy challenges** as they were discussed can be summarized in four points. One, the *availability* of oil and gas resources: is the world running out of oil and gas? Nobody in Rome was very concerned about this. It was noted that the availability of oil and gas resources is sufficient to satisfy demand over the next decades. At the same time, however, it

was also noted that "...public and market perceptions are not in line with the geological oil and gas realities". There was a call on IEF countries to work together to "re-align public and market perceptions with market fundamentals".

The second key global energy challenge is the *deliverability*: is the world investing enough in the entire oil and gas chain to deliver available resources to the markets in a timely manner? On this issue, much more concern was aired both at the IEBF and at the IEF. The staggering cost escalation in the oil and gas industry over the past years received a lot of attention. In the IEF Secretariat's background paper we estimated that the costs have risen over 100% in oil and 70% in gas since the IEF in Amsterdam in 2004 (see [www.iefs.org.sa](http://www.iefs.org.sa))! The latest estimates from IEA's World Energy Outlook 2007 indicate that accumulated investment in oil and gas up to 2030 would require close to \$ 10 trillion. At both IEF and IEBF, there was extensive support for **increased co-operation between IOC's, NOC's and service companies** as a major opportunity in coping with increasing costs, complexity and risks of large investment projects. A lot of discussions in Rome focused on the huge uncertainties on both the supply and the demand side which are hampering investment. Regarding the uncertainties on the demand side, there was an extensive debate on **biofuels**. The very ambitious targets on the future share of biofuels in a number of oil importing countries have created substantial uncertainty on the demand projections for crude oil, and thus on investment decisions and planning of oil producing countries. At the same time, the world is already witnessing some serious drawbacks and limits of biofuels at the present low level of 1,5% of road transport consumption. To mention just a few of those: doubts about the life-cycle environmental benefits, impact on water and land use and last but not least the impact on food prices. According to IMF's latest World Economic Outlook, "...biofuel-related demand has boosted prices of major food crops" (page xiv). Against this background, the closing statement of the IEF with regard to biofuels calls for "a realistic and comprehensive assessment of their future and potential implications". The IEF Secretariat was asked to ensure this assessment will become available, working together with IEA, OPEC and other relevant organizations. Regarding the uncertainties on the supply side, the **skill shortages** in the oil and gas industry were highlighted. This is one of the factors causing cost escalation and delays of major investment projects going forward. Although there has recently been a sizeable increase of the inflow of students into petroleum engineering in some parts of the world, the entire industry is facing a major outflow of experienced staff due to retirement in the next decade. IEF Ministers addressed the urgency to work together with the oil and gas industry, universities and research centers to promote a world-wide campaign in consuming and producing countries aimed at improving the image and rewards of technicians and skilled staff working in the oil and gas industry. On the broader subject of both demand and supply uncertainties, Ministers asked the IEF Secretariat to prepare a report for the next IEF Ministerial meeting in Mexico in 2010, focusing on recommendations and actions on how to remove the key **uncertainty factors** holding back energy investment.

The third key global energy challenge is *affordability*: how does the world cope with high energy prices? The world economy has demonstrated remarkable resilience against high energy prices so far. The recent slowdown of economic growth seems mainly caused by the turbulence in financial markets. Nevertheless, IEF Ministers did express concerns over the **level** of oil prices. It was noted that "...oil prices should be at levels that are acceptable to producers and consumers to ensure economic growth, particularly in developing countries". Apart from the level of oil prices, there was extensive discussion on the unprecedented high level of oil price **volatility** that we are witnessing (see the IEF Secretariat's background paper for new figures on the volatility of oil prices since the IEF 2004). The high volatility of oil prices complicates the interpretation of market signals and may adversely affect investment. Ministers noted "an increasing interconnection between oil and financial markets". According to the IMF in its latest World Economic Outlook, the recent run-up of prices "seems to have been at least partly due to financial factors" (page xiv). There was a call from IEF Ministers in Rome to further explore the understanding of market fundamentals and the impact of financial markets on level and volatility of oil prices.

One of the most effective ways to dampen oil price volatility, and thereby the room for speculation, is to increase the transparency in the oil market. This can be achieved by providing the market with more timely and complete data on oil consumption, production, trade and stocks. The Joint Oil Data Initiative (JODI), coordinated by the IEF Secretariat and in which IEA, OPEC, UN, EC, APEC and OLADE co-operate, was launched exactly for this purpose. JODI was commended by IEF Ministers for what has been achieved up to date. However, at the same time a strong commitment could be detected to further advance JODI to "make it the key source of oil data in the world". In this respect, it is important to mention that the Heads of Organizations involved in JODI held a separate meeting in Rome in which they reached conclusions on practical next steps to further improve JODI (see the press release published on our website [www.iefs.org.sa](http://www.iefs.org.sa) ).

Against the background of the trend toward globalization in the gas market fueled by the rapid rise of LNG, it was seen as timely to extend JODI to natural gas. The planned joint IEF-IGU Ministers/CEO's Gas Forum on 24 November 2008 was welcomed as an important step forward in this regard.

The fourth key global energy challenge is *sustainability*: how sustainable are the present energy trends, in particular from an environmental point of view? It is obvious that with world energy demand rising significantly and fossil fuels remaining dominant in the energy mix in the next decades, we are facing a strong upward trend in CO<sub>2</sub> emissions. Regarding the contribution of different fuels to CO<sub>2</sub> emissions, one should keep in mind that the share of coal is not only larger than that of oil or gas but also rising more rapidly in any business-as-

usual scenario. The Forum witnessed a very thorough discussion and exchange of views on **carbon capture and storage (CCS)** as an important option to reduce greenhouse gas emissions from fossil fuels. Fruitful discussions on how to take CCS forward took place both in the official sessions and in many informal bilateral and multilateral meetings. As one minister eloquently put it, “ CCS is basically the only show in town”. In order to accelerate CCS we need to work on many fronts: R&D, demonstration projects, public acceptance and incentives for deployment. The closing statement says on CCS: “Inclusion of CCS in the Clean Development Mechanism should be enacted as soon as possible. Consensus was that more commercial-scale demonstration projects and international partnerships are needed to help CCS become commercially viable”.

A last key global energy challenge that basically cuts through all the four others, is **energy poverty**. While people in developed countries worry about blackouts and high power prices, 1,6 billion people in developing countries still don't have any access to electricity and are thus suffering from permanent blackouts. Where people in developed countries are concerned about oil and gas supplies and high oil and gas prices, 2,5 billion people in developing countries are still relying on traditional biomass for cooking. It was noted at the Forum that” this perpetuates the poverty cycle and inhibits economic development, availability of clean water and food, while preventing training and acceptable health standards.” How sustainable is this situation in the long run? IEF Ministers called for “ a step-change in the collective effort of all international organizations involved to help achieve the Millenium Development Goals by halving poverty rates by 2015”. A very strong message indeed, but necessary if we want to achieve energy security for all.

Finally, the IEF in Rome has demonstrated clearly that the IEF is a very unique forum indeed. It is the only global energy organization where so many developed and developing countries meet from both consuming and producing countries, covering over 90% of world oil and gas consumption and production. Having the active participation of the major IEA and OPEC countries, but also of Russia, China, India, Mexico, South Africa and many others.

Where does this leave us as IEF Secretariat? With an ambitious action-oriented agenda for the next two years. And a strong mandate to focus the global energy dialogue on key issues and to deliver concrete results in improving investment conditions for the oil and gas industry, the transparency of oil and gas markets and the sustainability of the oil and gas industry. As the Greek poet Euripides said more than 2000 years ago: “Actions achieve more than words”. Let this be our motto for the dialogue in the years to come.

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