



Third IEA-IEF-OPEC Symposium on Energy Outlooks

Riyadh, 22 January 2013

Opening remarks by Aldo Flores-Quiroga
Secretary General of the IEF

Welcome

Good morning and welcome to the headquarters of the IEF.

We at the IEF are delighted to have you with us in this Third Symposium on Energy Outlooks organized jointly by the IEA, IEF and OPEC. Our three organizations join forces in this event to improve our understanding of energy markets and thereby enhance the quality of the producer-consumer dialogue.

Our special gratitude to HRH Prince Abdulaziz bin Salman bin Abdulaziz Al-Saud for honouring with his presence today. He has been a true champion of the energy dialogue from the very beginning. To a large extent we are here due to his leadership in the creation of this dialogue platform and in launching the comparative exercise in which we will be engaging today.

Special thanks go as well to my friends, Her Excellency Maria van der Hoeven, Executive Director of the IEA, and His Excellency Abdallah El-Badri, Secretary General of OPEC. It is also an honor to have them among us today. Their support for this initiative has been unwavering. They are here together with their teams of analysts and technical experts, who are ready to share their perspectives and to listen. "To share and to listen": two basic tenets of a successful dialogue.

And many thanks to our guests, the session moderators, panelists and participants. I am certain you will make of this event a success.

HRH Prince Abdulaziz bin Salman will now deliver his own welcoming remarks. I will then ask Their Excellencies Mr. El-Badri and Mrs. Van der Hoeven to give us their own opening messages, and afterwards I will offer a few remarks on the relevance of this event from the perspective of the producer-consumer dialogue.

Introduction to the Symposium

I can hardly overemphasize the importance of this symposium, if only because of the role energy outlooks –these IEA and OPEC outlooks in particular- play in worldwide discussions on energy.

Almost everywhere I go a sizable number of speakers begin their presentations referring to the outlooks prepared by both organisations, using them as springboards to support or complement their arguments on this or that energy development. Nearly every report we read on energy matters makes reference to these documents as well. And just about all decisions on energy policy and investments take into account in some way or another what they have to say.

Let's pause for a moment to remember how this exercise of comparing outlooks came about. If you go back in time and think of episodes of high oil-price volatility, you will notice that they have been triggers for the global energy dialogue. Beyond the friction and the intensification of diplomatic initiatives they are typically associated with, they have also helped to structure the global energy discussion.

High-volatility episodes bring with them a host of questions about the oil market. Did some geopolitical event affect oil supplies? Did demand change in an unexpected way? Is the market well supplied? Is the current level of demand sustainable? What is the available spare capacity? What is affecting the process of price-formation?

Behind many of these questions the issue of production and consumption prospects looms large, because it is usually the case that today's supply and demand structure is the outcome of decisions taken, say, a decade ago. As everyone here knows, the energy business is fundamentally a long-term business. Long-term expectations and the way they are formed play a crucial role in the behavior of investors, consumers, and policymakers.

So if you think about the opportunities and challenges the oil market is facing today -if you try to make sense of them- you will very soon start thinking about past and current energy outlooks. Today's oil supply and demand is determined by past expectations of market participants, who made production and consumption decisions based on the outlooks they had available a number of years ago. They are also affected by current expectations about the future behavior of supply and demand determinants: a high demand forecast will affect investment decisions today, just as a high supply forecast will affect consumption decisions today.

In the parlance of economics, market participants are making investment and consumption decisions in an inter-temporal framework, taking into account their knowledge and expectations of what is happening at different points of time.

Market participants are of course well aware of this process, but they lived through it once again in its extreme form between 2008 and 2009, when oil prices moved up and down quite sharply. As the discussion then involved many questions about the impact of past investment decisions on current spare capacity, or on the role of the rapid expansion in Asian demand growth, or even on the credibility of the peak-oil hypothesis, much attention was paid to the message energy outlooks were conveying about these variables, among others.

That attention led to the launching of an IEA-IEF-OPEC joint programme of work, agreed by the three organisations and endorsed by Energy Ministers present at the 12th International Energy Forum, held in Cancun in 2010. The program of work identifies specific areas of cooperation, with special regard to two objectives:

- Developing better understanding of the functions and drivers of energy markets, and
- Sharing insights and exchange of views on energy market trends and outlooks.

Given the critical role that outlooks play in structuring our thinking about energy market developments, as well as in the formation of market expectations, it is crucial that we understand how they are built. At the end of the day a policymaker has to make a decision to regulate, tax, or subsidize; a producer has to determine how much to produce and sell; a consumer has to establish how much to buy. On what basis will they make these decisions? Which outlook will they choose to rely on more? Or how will they use existing outlooks to create an integrated perspective, a navigation map, for the energy market?

Understanding why the outlooks of the IEA and OPEC are different, thinking about what can make them comparable, or sharing points of view about how to improve them, is an important support for the interpretation of oil market developments. It also contributes to foster cooperation between producers and consumers, as they can have a better idea of why their views are not necessarily coincidental, or what process lies behind the establishment of each other's energy perspectives.

We must see this Third Symposium --this comparative exercise- as a process that is still in its early stages. We are just beginning to peel back the first layers of the outlooks to figure out how they are built. This has already helped us to identify in previous symposia, for example, that a simple reclassification of geographical groupings or production streams can make these outlooks more comparable. Such a reclassification does not entail a

change in estimation methodologies. And if we continue to improve JODI coverage and quality, we will strengthen the numerical basis of projections.

There are other causes for the differences, of course. As we move forward with this comparative exercise I trust we can get a better grasp of them.

I just said “move forward” and I want emphasize that. We have to aim for more. We must not be satisfied at the end of this meeting with conclusions that are so general that they add little value to our understanding of the outlooks. If we repeat that what makes the outlooks different is their definitions, yet are unable to work through them to strive for more comparability and, equally important, greater understanding, we will be accomplishing less than we can. If our technical teams don’t continue the conversation after today and wait until, say, a month before the next symposium, they will be telling us that they are too busy with other matters –which is legitimate—or not to interested in improving the process of understanding energy outlooks –which would be disappointing.

The broader public, the energy ministers, the CEOs, the investors, the experts, the academics, the students - all deserve to have energy information and outlooks that are intelligible to them. To “move forward” is also to communicate better with them. Virtually all ministers participating in the IEF have highlighted transparency as a priority, which also applies to the understanding of outlooks that play such a critical role in energy decision-making.

I trust that an open spirit of cooperation and discovery prevails in this room and that the experts –yourselves- roll up your sleeves and approach each other’s work with a genuine interest in understanding. A good rule of thumb, as my econometrics professor once said, is to “estimate, don’t test.” Focusing on how to estimate and forecast better, rather than on just seeking who is right or wrong, is more constructive and can help us accomplish more.

In closing I would like to underscore yet again that at the IEF we are honored to support this exchange in cooperation with the IEA and OPEC. And we are ready to continue to do so, for the benefit of stability, sustainability and transparency in energy markets, as established in the IEF Charter.

May we learn much and take stimulating ideas from this meeting to deliver improved understanding to energy stakeholders around the world. And may we continue this fruitful collaboration between the IEA, the IEF and OPEC.

Thank you.