“IEF- AN EXCELLENT PLATFORM”

Last year became a year when global energy security was actively discussed as the flagstone of the future energy world order. Russia brought a new dimension to this subject, affirming that individual energy security of a country, defined as "state of supply with energy sources", cannot be established at a single country's level.

Our country has put together an integrated attitude towards the energy security problem, which is determined by the special geographic, economic and political situation of Russia. We are a major exporter as well as consumer of energy resources. At the same time Russia is an important transit state. Therefore we have been able to understand positions of many players in the global energy market.

“Conditio sine qua non” of a stable global energy system is coordination of the key players’ actions and establishment through an active multilateral dialogue of transparent, long-term rules of the game. The same logic is applied at the global level as well as at the regional and sub-regional ones; a kind of “energy matrioshka” is formed: “country – sub-region – region – world”. Steadiness of the whole energy security structure is achieved within this chain only from the efficient functioning of each of the interaction levels and their coordination, which determines the importance of all kinds of discussion platforms and tools.

This position has been fully reflected in the Declaration on Global Energy Security adopted at the Group of Eight Summit in St.Petersburg. World leaders note in this document that open, transparent and competitive markets are a key for an efficient functioning of the global energy system. Efforts to increase transparency, to extend the rule of law, to establish and strengthen predictable and effective taxation and regulation frameworks – all this plays a significant part in global energy security. By decreasing the level of uncertainty, these efforts contribute to a better understanding of energy markets, and therefore to more balanced investment decisions and higher competitiveness.

(Continued on page 12)
The IEF Secretariat enters its fourth year of activity at a time of heightened energy security concern around the world. The producer-consumer dialogue was given a forceful political boost by the 10th IEF Ministerial in April 2006, when Ministers discussed energy security as a “shared responsibility” reaching deeper levels of mutual understanding and stronger awareness of common long-term interests. The Second International Energy Business Forum enabled Ministers to interact with CEOs of leading national and international companies to deepen the producer-consumer dialogue.

The importance of global energy dialogue, as well as increased transparency in policy plans and data, was further underscored at the G8 Summit in July. The Newsletter highlights the references to the IEF and Joint Oil Data Initiative made by the G8 Heads of Government in their St. Petersburg Plan of Action on Global Energy Security. Their support to JODI, a unique inter-organisational transparency initiative co-ordinated by the IEF Secretariat, was subsequently echoed by the APEC Ministerial and G20 Finance Ministers. The 6th International JODI Conference, hosted by the IEF Secretariat in November, offered a timely opportunity to assess progress to date and discuss the road ahead.

With Energy Security as top priority for the G8 Presidency of the Russian Federation last year, the Newsletter is honoured to give cover-page prominence in this first issue of 2007 to H.E. Victor Khristenko, Minister of Industry and Energy, who outlines Russian and G8 perspectives on energy security while emphasizing the role of the IEF as an “excellent platform” for multilateral dialogue and international energy co-operation.

Minister Khristenko is joined from the Ministers’ Rostrum in this Issue by H.E. Karel De Gucht, Minister of Foreign Affairs of Belgium and Chairman-in-Office of the Organisation for Security and Co-operation in Europe, who underscores the need to give attention to energy security issues in the context of the politico-military, economic and environmental as well as human dimensions of the OSCE’s activity. H.E. Edmund Daukoru, President of the Conference and Secretary General of the Organisation of Petroleum Exporting Countries recalls OPEC’s early advocacy of international producer-consumer dialogue and reconfirms “unflinching support” to the IEF and the importance attached to JODI. H.E. Mehmet Hilmi Güler, Minister of Energy and Natural Resources of Turkey and H.E. Amanullah Khan Jadoon, Minister for Petroleum and Natural Resources of Pakistan, both active participants in the IEF, highlight the importance of new transnational pipelines – the Baku-Tbilisi-Ceyhan oil pipeline and Iran-Pakistan-India natural gas pipeline respectively – for regional energy security and wider economic co-operation.

Dr. Rodrigo de Rato y Figaredo, Managing Director and Chairman of the International Monetary Fund, underlines the importance of oil market stability and continued producer-consumer dialogue for global energy security. Dr. de Rato acknowledges the importance of JODI, to which the IMF is providing much appreciated assistance.

In our regular feature “From Confrontation to Dialogue”, energy commentator Syed Rashid Husain notes the altered dynamics of the energy world and how the IEF serves as a platform for stakeholders to achieve a broader consensus on a road map to energy security of both producers and consumers.

The Executive Board of the IEF Secretariat is now fully selected and discussed at its first meeting held in Riyadh in September the Secretariat’s Programme of Work towards the 11th IEF Ministerial that will be hosted by Italy and co-hosted by India and Mexico in Rome in 2008. As soon as approved, the Programme of Work and Budget for 2007 will be sent to Ministers of IEF participating countries with a request for voluntary financial contributions to Secretariat activity in 2007. Thanking those countries that have provided such contributions for 2006, and urging those who have not yet done so to do so, the Secretariat is looking forward to continued contact and co-operative activities to strengthen and provide continuity to the political-level, global energy dialogue in the IEF.

Upcoming Events

16 January 2007: 12th Meeting of the IEFS Executive Board takes place in Rome, Italy.
29 January – 2 February 2007: Regional JODI training session for Sub-Saharan African countries hosted by the Government of South Africa and organized by the IEF in co-operation with the UNSD takes place in Johannesburg, South Africa.
6 March 2007: Secretary General of the Energy Charter A. Mernier delivers the 4th “IEF Lecture” at Secretariat Headquarters.
G8 SUMMIT SUPPORT

Under the Presidency of the Russian Federation, the Heads of Government of the Group of Eight Industrialized Nations addressed global energy challenges at their Summit meeting in St. Petersburg on 15-17 July 2006. At the top of their Plan of Action on Global Energy Security adopted at the Summit, the G8 Heads of Government invited the International Energy Forum to study ways of broadening the dialogue between energy producing and consuming countries and to work on the expansion of Joint Oil Data Initiative membership and to continue to improve the quality and timeliness of data.

The St. Petersburg Plan of Action on Global Energy Security further strengthens the support to producer-consumer dialogue, the IEF and JODI expressed by G8 Heads of Government at the Gleneagles' Summit in July 2005. Its first two operative paragraphs read as follows:

“Free, competitive and open markets are essential to the efficient functioning of the global energy system. Efforts to advance transparency; to deepen and spread the rule of law; to establish and strengthen predictable, efficient fiscal and regulatory regimes; and to encourage sound energy supply and demand policies all play significant roles in maintaining global energy security. By reducing uncertainty these efforts improve understanding of energy market developments, and therefore sound investment decisions and competitiveness. Regular exchanges of timely and reliable information among all market participants are also essential for the smooth functioning of world energy markets. Transparent, predictable national energy policies and regulatory environments facilitate development of efficient energy markets. We invite the International Energy Forum to study ways of broadening the dialogue between energy producing and consuming countries on these issues including information exchange on their medium- and long-term respective policy plans and programmes.

We welcome the beginning of implementation of the Joint Oil Data Initiative and will take further action to improve and enhance the collection and reporting of market data on oil and other energy sources by all countries, including through development of a common global standard for reporting oil and other energy reserves. In this respect, we will invite the IEF to work on the expansion of JODI membership and to continue to improve the quality and timeliness of data.”
The Political Significance of Energy in the OSCE

Energy Security is one of the most crucial themes of the day. Energy maintains our standard of living and is the basis for economic performance. Currently, we take it for granted that energy is available whenever we want it. Yet, demand for energy will increase as we expect economic growth and rising living standards. The most reliable predictions indicate that by 2050, the world’s population will nearly double from its present level. It will rise from around 6 billion to about 10 billion people. This will result in increasing dependence, higher prices, and uncertainty of energy supplies.

Governments have to face this challenge. We can no longer be sure that national energy policies will provide secure access to energy resources and a sustainable balance of demand and supply.

The current economic and environmental conditions force us to look for regional and even global long-term energy security strategies based on renewable, efficient, and ecologically sound technologies. To achieve this goal, inter-regional and inter-institutional co-operation mechanisms are to be strengthened and multilateral approaches are to be further developed with a view to reach a common understanding between all stakeholders.

The International Energy Forum plays an important role in bringing together Energy Ministers of consuming and producing countries. It sets a multilateral example of how to strengthen international energy security through informal and consensus-oriented approaches.

This working method is familiar to the Organisation for Security and Co-operation in Europe (OSCE), chaired by Belgium last year. The OSCE is a regional security organisation which encourages a convergence of views and awareness of common interests in three dimensions: the politico-military dimension, the economic and environmental dimension and the human dimension. Because of its high political profile in its 56 participating States of the Northern Hemisphere, the OSCE has established itself as a primary instrument for early warning, conflict prevention, crisis management and post-conflict rehabilitation.

I believe that from a conflict preventing angle, the OSCE should give attention to energy security issues. When looking back upon the recent past, it is plain to see that they can lead to serious tensions between countries.

While the OSCE does not aspire to become an international energy organisation, it is not a foreigner to the subject either. The foundation for a contribution to the energy security dialogue is the Maastricht Strategy, adopted at the 2003 Ministerial Council. This Strategy sets basic principles to promote a predictable, reliable, economically acceptable, commercially sound and environmentally friendly energy supply.

My conclusions from all the above, now, are as follows:

First, as a political organisation of 56 participating States, including all Central Asian countries, and with field presences in 18 countries, the OSCE is well placed to promote a broader concept of energy security, encompassing all stages of the value-added chain, involving countries of origin, transit and destination as well as other stakeholders, including the private sector and the civil society.

Secondly, The OSCE can raise awareness and exchange best practices regarding the existing legal and regulatory energy frameworks with a view to promoting them.

Finally, I believe the OSCE should aim at enhancing cooperation between international organisations, and offer the political profile of the OSCE to stimulate the dialogue between energy producing, consuming and energy transit countries. For this precise reason, I have taken the initiative to associate the OSCE to the International Conference on the role of Governments and International Organisations in promoting energy security. This conference was co-organized with (Continued on page 12)
In the last few months, we have seen a discernible shift in the oil market outlook, with a significant reversal of the trend of protracted upward pressure on prices that had been a dominant feature since spring 2004. Moreover, the scale and speed of the decline in crude oil prices caught the market by surprise, with the OPEC Reference Basket falling by nearly US $20 a barrel from a peak of $72.7/b on 8 August, the sharpest drop since 1991.

The change was as dramatic as that of the first half of 2004, when the market’s behaviour unexpectedly began to be dominated by excessive volatility and persistent rising prices, after a period of relatively high market stability since the turn of the century. Almost as fresh in our memories is the oil price weakness of late 1997 to early 1999, in the wake of the economic downturn in south-east Asia. Before that, the 1970s had witnessed substantial price volatility and the 1980s were dominated by the price crash of 1986. Indeed, there have been many other examples of instability and uncertainty since the birth of the modern petroleum industry in the mid-19th century, with often severe repercussions further afield at a broader economic, social and political level.

OPEC, founded upon the principles of dialogue among like-minded oil-producing developing countries 46 years ago, has, from the start, recognised the need for a collective approach from within the industry at large to achieving lasting order and stability in the market, for the benefit of all the players, as well as the world economy. The importance of shared responsibility in handling topical energy issues was emphasised once again last year with the launch of OPEC’s comprehensive long-term strategy.

In the late 1980s, much as we welcomed some major advances that had been made, in the shape of enhanced dialogue among OPEC and non-OPEC producers, we nevertheless made no secret of our view that even more was required.

Finally, our repeated calls for international producer-consumer dialogue were heeded with the historic meeting of both sides in Paris in 1991 — although the issues discussed then were of a limited nature, compared with today, as was the level of representation of some leading consumer nations.

Our Organisation has been very much at the forefront of the development of what became formally established as the International Energy Forum, with its headquarters in one of our Member Countries, Saudi Arabia. We are gratified to see how this essential intergovernmental body has gone from strength to strength, to play such a prominent and effective role in producer-consumer dialogue in an increasingly wide range of areas, with Ministerial-level representation from all sides of the industry.

We consider it a matter of absolute priority every second year to prepare a background paper on the oil market outlook for the forthcoming meeting of the forum, since we recognise that every effort must be made to support the continued forward march of dialogue, in handling the challenges that face all of us.

A tangible demonstration of the progress achieved in dialogue is the Joint Oil Data Initiative (JODI), launched in 2001 by OPEC, the Asia Pacific Economic Cooperation, Eurostat, the International Energy Agency, the Latin American Energy Organisation and the United Nations Statistics Division. This came in response to a directive from Ministers attending the 7th IEF, who saw the need for an initiative that would enhance “cooperation among relevant international organisations, as well as participating countries, in improving timely access to energy data”. OPEC attaches great importance to JODI, which it regards as an essential tool for improving overall transparency in the oil market. The Organisation is committed to improving data flow, which it feels is one of the important prerequisites for determining future supply and demand patterns and helping bring stability to the international oil market.

The Sixth JODI Conference held in Riyadh on 25-26 November 2006, presented an opportunity to not only reflect on recent developments in OPEC’s dialogue efforts, but also to look at the future, especially through the prism of the enhanced dialogue among producer and consumer countries.
“Iran-Pakistan-India Gas Pipeline for Regional Prosperity”

Pakistan’s energy mix is dominated by oil and gas. Together they contribute 80% of 56 million tonnes of oil equivalent (MTOE) of primary energy supplies. The other sources include 8% coal, 11% hydro electricity and 1% nuclear electricity.

According to Government’s projections in the Medium Term Development Framework (MTDF) plan, Pakistan’s energy requirement will increase to over 360 MTOE in the next 25 years, more than half of which will have to be imported. Although according to this plan, contribution of oil and gas is projected to drop from the present 80% to about 64%, natural gas is still expected to meet 45% of the primary energy needs at the end of the twenty-five year period.

Pakistan is exploring various options to enhance its gas supplies which are assured, affordable and sustainable on long-term basis so as to maintain the current pace of economic development. To meet this challenge, Pakistan has adopted a two-pronged strategy focusing on: (a) accelerating domestic exploration efforts with more attractive package of incentives for producers; and (b) import of natural gas through transnational pipelines and in the form of liquefied natural gas.

One of the viable gas import options being pursued by Pakistan is import of gas from Iran to Pakistan and its extension to India. Iran as the owner of the world’s second-largest proven natural gas reserves is keen to exploit this resource as a source for its revenues. The biggest potential customers of Iranian gas so far are Pakistan and India.

The Iran-Pakistan-India gas pipeline project envisages laying of 2,200 km on-land pipeline to transport gas for both the countries. The total cost of the project was estimated to be over USD seven billion in 2006.

Pakistan’s Ministry of Petroleum and Natural Resources has constituted separate working groups with Iran and India to deliberate upon technical, legal, financial and commercial issues of the project. The working groups have held several one-to-one as well as joint meetings so far. Despite the complexities that naturally involve negotiating and executing such a project, progress has been achieved on key components of the project like signing of the term sheet, consensus on major items of the gas sale purchase agreement, broad understanding on project structure, and appointment of international advisors. A Pakistani advisory consortium led by PricewaterhouseCoopers has almost finalized pre-feasibility reports for the Pakistan segment of the project.

Further negotiations of the three parties are in hand to finalize this venture. The degree of earnestness displayed by all the parties, since all will benefit from it, allows us to assume an optimistic conclusion of the project.

Benefits to Pakistan

For Pakistan, the replacement of imported oil with imported gas will increase energy security both in terms of security of supply as well as security of price in view of the long term contract with dedicated source of supply and guaranteed consumption. It will give relief to the hard-pressed infrastructure of ports, roads and railways which are used in movement of imported oil upcountry. In addition, Pakistan will have a strategic advantage as a transit country.

Regional Prosperity

The South Asia region will benefit from the Iran-Pakistan-India pipeline project as it will provide a foundation for future economic growth, peace and cooperation throughout the region. It will result in a shift towards more gas-driven and environment friendly energy economies of two major energy consuming countries. Significant direct and indirect economic benefits during the construction and over the life of the project will be generated through employment, transit fees, availability of clean fuel, economic and industrial growth. The project will create major investment opportunities for the entire region including downstream business.
With her strategic position, Turkey has a key role to play in promoting a new and more co-operative era in the energy sector. Turkey is a staunch supporter of further developing the political level dialogue among energy ministers in the International Energy Forum. Indeed, I found our discussions at the 10th IEF Ministerial in Doha in April very useful in underscoring global energy security as a “shared responsibility” for energy producing, consuming and transit countries.

As the world seeks to achieve greater prospects for energy security, pipelines traversing multiple countries have gained in prominence in the global energy agenda. At a time when integration of energy markets is accelerating, only international cooperation and partnerships can ensure a reliable and sustainable energy supply. The Baku-Tblisi-Ceyhan (BTC) Crude Oil Pipeline Project stands out as the best example to this end.

The initial stages of the BTC project date back to the 1990’s. The challenging journey started with the Intergovernmental Agreement, which was signed in Istanbul on 18 November 1999 among the Republic of Turkey, Georgia and the Republic of Azerbaijan. After that, Host Country Agreements and the Lump Sum Turnkey Contractor Agreement were concluded. Hundreds of contracts were made with subcontractors and the project was carried out through meticulous work.

The pipeline was completed after the achievement of several milestones thanks to the dedication and wholehearted work of all parties involved, including but not limited to Governments, international oil companies, IFI’s and NGO’s. The first tanker lifting on 4 June 2006 embodied the happy ending. There was a tremendous amount of learning on the part of each party involved in such a complex and multi-dimensional project. Timely and on-the-budget delivery was a truly incredible success.

Even a cursory look at the BTC pipeline reveals it as one the most stunning engineering projects of the last decade. With a capacity of one million barrels of oil, it crosses through three countries along a distance of 1,768 km. Along its route are several areas with extremely unfavourable engineering conditions at steep slopes at elevations of as much as 2,500 metres. Approximately 35,000 people worked on the project.

Compared to earlier pipeline projects, the BTC project has been distinctive in its environmental and social standards as well. This distinction led the World Bank to classify the BTC as a “Class A” project. Very high standards were achieved in terms of reinstatements which were verified by external assessors.

Also, the BTC will obviate the need for around 350 tankers per year transporting crude oil through the Turkish Straits and thereby posing a serious environmental threat to Turkey and especially Istanbul, a World Heritage City.

To conclude, the BTC will not only further enhance global energy security, it will also set a benchmark for a succession of oil and gas pipelines planned to reach the European Union. These will increase Turkey’s strategic significance as an energy corridor and hub over the next decade. In other words, located at a crucial region between East and West, Turkey is dedicated to become an energy bridge between the producer countries and the consumer markets.
by Dr. Rodrigo de Rato y Figaredo

Dr. Rodrigo de Rato y Figaredo, Managing Director and Chairman of the Executive Board of the International Monetary Fund since 2004, underscores in this special article for the Newsletter that continued dialogue between producers and consumers is an absolute necessity to ensure increased energy security for all. Believing that global energy security can be truly enhanced when governments combine unilateral and multilateral efforts to ensure an orderly, efficient and transparent global oil market, Managing Director de Rato acknowledges the important contribution of the Joint Oil Data Initiative to efforts to enhance transparency. He mentions how the IMF is providing much appreciated assistance to this unique transparency initiative co-ordinated by the IEF Secretariat.

Prior to heading the IMF, Dr. de Rato was Vice President for Economic Affairs and Minister of Economy of Spain from 1996. He was a Member of Spain’s Parliament from 1984 to 2004.

High and volatile oil prices and the decline in spare capacity in the oil sector in recent years have made energy security a central focus of policy. All countries agree on the importance of a more stable oil market in enhancing security. This indeed is the primary reason behind increased dialogue between producers and consumers and the creation of entities such as the International Energy Forum. Nonetheless, individual country policy actions do not always seem to take into consideration the global nature of the oil market and the effects that policies have beyond a country’s borders.

National energy security strategies are oftentimes conceived as a set of unilateral policies aimed at reducing the country’s vulnerability to volatile prices. For consuming countries, the priority is to secure stable and adequate supplies of energy at affordable prices. This is especially critical for relatively energy-intensive developing countries with rapid per capita income growth. For energy producers, the focus is to maintain the security of demand for their exports, and adequate control over the rate of depletion of a strategically important resource.

These are all legitimate concerns and unilateral strategies can indeed address some important supply concerns, for example accumulating strategic reserves for use in crisis situations. However, policies are not always sufficiently focused on narrowing market imbalances, for example when countries rush to acquire oil fields abroad before addressing domestic pricing distortions. In addition, policies are often formed without sufficient recognition of their long-term impact, for example when governments take abrupt steps to reverse previous policies by altering the terms of investment contracts, thus ultimately deterring potential new foreign investors.

I believe global energy security can be truly enhanced when governments combine unilateral and multilateral efforts to ensure an orderly, efficient and transparent global oil market. In such an environment prices reflect the scarcity of the resource, consumers respond to price signals in a timely fashion, and investors are able to better plan future production. The resulting increase in price stability will benefit both producers and consumers.

• Appropriate pricing and taxation policies and promoting a stable investment climate and efficient production regardless of who owns the fields are key requirements for this. Encouraging conservation and diversification can help contain demand and mitigate environmental effects. Promoting investment can help ensure adequate supply response and enable better access to energy sources especially by developing countries, at reasonable prices. Greater and prudent use of futures and other derivative markets can help consumers and producers hedge against uncertainties and enhance security.

• Efforts to enhance transparency is another key requirement. The creation of the IEF and the Joint Oil Data Initiative (JODI) are important steps in this direction. We at the IMF acknowledge the important contributions that JODI is making and are assisting this exercise by incorporating energy statistical practices in our country-level Data Dissemination Standards initiatives and collaborating with member countries to improve reporting of oil-related statistics.

Needless to say to achieve these objectives and ensure increased energy security for all, continued dialogue between producers and consumers is an absolute necessity.

"DIALOGUE- An Absolute Necessity"

“Promoting Energy Security Through a More Stable Global Oil Market”
NEW MINISTERS

H.E. Akira Amari, Japan
H.E. Akira Amari was appointed Minister of Economy, Trade and Industry in September 2006. He has held many senior government positions, including those of Parliamentary Vice-Minister of International Trade and Industry, Minister of Labour, and more recently as the Acting Chairman of the Policy Research Council. He replaces former Minister H.E. Toshihiro Nikai, LDP Diet Affairs Committee Chairman.

H.E. Sheikh Ali Jarrah Al-Sabah, Kuwait
H.E. Sheikh Ali Jarrah Al-Sabah was appointed Minister of Energy in July 2006. Following a long and distinguished career in the financial sector Sheikh Al-Sabah was appointed Minister of Social Affairs and Labour in February 2006 before taking up his post as Minister of Energy. He replaces former Minister H.E. Sheikh Ahmad Fahad Al-Ahmad Al-Sabah.

H.E. Georgina Kessel Martinez, Mexico
H.E. Georgina Kessel Martinez was appointed Secretary of Energy in December 2006. She has broad experience in the public sector and particularly in the energy sector. She has held many senior government positions, including that of Director General of Sectorial Economic Analysis at the Ministry of Energy, first President of the Commission for the Regulation of Energy and Head of the Unit of Investments at the Ministry of Finance. She replaces former Secretary of Energy H.E. Fernando Canales Clariond.

H.E. Joop Wijn, The Netherlands
H.E. Joop Wijn was appointed Minister of Economic Affairs in July 2006. His previous posts have included State Secretary for Finance from 2003 to 2006, and State Secretary for Economic Affairs from 2002 to 2003. He was elected as a Member of the Dutch Parliament for the CDA [Christian Democratic Party] in 1998. He replaces former Minister H.E. Jan Brinkhorst who hosted the 9th IEF and 1st IEBF in Amsterdam on 22-24 May 2004.

H.E. Joan Clos i Matheu, Spain
H.E. Joan Clos i Matheu was appointed Minister of Industry, Tourism and Trade in September 2006, relinquishing the position of Mayor of Barcelona which he had held for more than nine years. A medical doctor by training Dr. Clos has served as Director of Health Care Services and as elected Municipal Councillor in Barcelona. He replaces former Minister H.E. José Montilla who is now President of the Generalitat de Catalunya.

H.E. Maud Olofsson, Sweden
H.E Maud Olofsson was appointed Deputy Prime Minister and Minister for Enterprise and Energy in October 2006. She held senior posts in the Centre Party leadership including that of Party leader before taking up her present role. She replaces former Minister H.E. Thomas Ostros.

H.E. Piyasvasti Amranand, Thailand
H.E. Piyasvasti Amranand was appointed Minister of Energy in October 2006. He has served as Secretary General of the National Energy Policy Council and held other senior roles within the office of the Prime Minister. Dr. Amranand returned to Government to take up his current post after more than three years in the private sector as Chairman of the largest investment fund in Thailand. He replaces former Minister H.E. Viset Choopiban.
FROM CONFRONTATION TO DIALOGUE

Mr. Syed Rashid Husain, writes in his contribution to the Newsletter’s regular feature “From Confrontation to Dialogue” on the altered dynamics and changing landscape of the energy world. Noting the huge investments required to satisfy increasing demand for oil in the years ahead, he fears that “political rhetoric of wriggling out of dependence on Middle East oil” would discourage investors and be a “recipe for disaster”. And underlining energy security as a shared responsibility, he sees the IEF providing a platform to achieve a broader consensus on a road map to the energy security of both producers and consumers.

Mr. Husain, a Pakistani national, writes the column “Oil Scene” for the “Arab News”, the leading English language daily in the Middle East. He contributes as well to the Pakistani daily “Dawn”, the BBC and “the Sunday Times” of London. He is Vice-President of the Trading and Consulting House Al-Azzaz Est. based in Al-Khobar, Saudi Arabia.

“Adjusting to the Energy Scenario”

The landscape has changed and changed immensely. The 1970’s were a totally different era - as far as the global energy equation is concerned. The dynamics of the energy world stand completely altered today.

OPEC had a virtual monopoly on the crude markets in the 1970s. They were controlling almost 70 percent of the global crude trade. Global energy intensity was much higher than it is today. Oil was contributing almost eight percent to the global GDP. And the still primitive economies of most of the oil producing states were not as dependent then on revenues generated from oil sales as they are today. They could have afforded - economically, politically and socially - to refrain from selling oil and still survive.

Things stand greatly changed since then. The world is no more energy intensive. The US petroleum intensity has gone down from 1.5 barrel/$1000 (1996) GDP to 0.8 barrels in 2000. Also evident is the fact that a price of $78 a barrel plus also could not derail the global economic growth as oil’s contribution to the global GDP has gone down to almost three percent. OPEC’s share in global crude business is almost half of what it was in the 1970s.

The almost single product economies of most of the oil producing states are today deeply dependent on revenues from oil. During the recent conflagration between Hezbollah and Israel, oil producers openly said governments have to ensure the welfare of their population and levying an embargo on oil sales, as some were giving calls then, could jeopardise that.

However, despite the fact that the global oil intensity has gone down and the contribution of oil towards the global GDP has also gone down considerably, the global economic growth in recent times means that considerable additional volumes of oil would be required in not too distant a future. The current global oil consumption of around 84.1 mbd is projected to leap up to 118 mbd by 2030.

In a world infested with wars and turmoil, generating this additional energy resource is a major challenge before the energy fraternity, especially since most of the incremental volume is to come from a region, which many term as inherently unstable. New technology and new forms of energy would have to increasingly support and supplement the global crude balance.

This additionally required volume is available underneath, most today agree, but at a cost and requires huge investment. This may not be forthcoming in the current geo-political scenario. With the rhetoric, though mostly political, of somehow wriggling out of the dependence on Middle Eastern oil, many an investor would be wary to invest. And this is a recipe for disaster.

A new approach is required. Energy security is very much a “shared responsibility” as confirmed by Ministers at the 10th IEF in Doha in April. Confrontation is simply unaffordable. The presence of the International Energy Forum is a candid example of the changing times. IEF today provides a wonderful platform to achieve a broader consensus on a road map to the energy security clamoured by both consumers as well as the producers. This road map of demand is a must and must be accounted for!

Global energy interdependence makes its imperative to strive for much greater coordination among different tiers of governments and public opinion makers in the producing as well as consuming countries. Political rhetoric has to be avoided, so as not to pollute the environment any further. Bridges and trust need to be made, so as to ensure the continuity and prosperity of this civilization. Coordination between politicians, respective foreign offices, energy ministers, environment fraternity is thus the need of the hour.

This energy driven civilisation of today could only be sustained in a spirit of accommodation and cooperation and the stake holders will have to adjust to the emerging scenario.
The New Executive Board of the Secretariat, formed after the 10th IEF in Doha, Qatar on 22-24 April to serve through the 11th IEF, that will take place in Rome in 2008, held its first meeting at Secretariat Headquarters in Riyadh on 23 September.

In addition to administrative matters, this 11th meeting of the IEFS Executive Board, chaired by Director General Sergio Garribba in the Ministry of Economic Development of Italy, discussed and gave further guidance to the development of the Secretariat’s Programme of Work and Budget for 2007 to be returned to the Executive Board for subsequent approval. After the meeting, the Auditors’ Annual Report for 2005, as approved by the Executive Board, was sent to those countries that have been invited to provide voluntary financial contributions to Secretariat activity in 2006, including those countries, that have provided such contributions for 2005.

As stipulated in the Statutes of the IEF Secretariat, the Executive Board consists of 13 member countries and the IEA and OPEC Secretariats. Representatives of the host and co-hosting countries of both the preceding and next IEF Ministerial as well as of Saudi Arabia, as host country to the Secretariat, along with the IEA and OPEC Secretariats are statutory members. These select the remaining members bearing in mind the objective of securing an overall balance between consuming and producing countries, developed and developing countries as well as geographical spread. Due consideration is also given to the respective contributions of the countries to the IEF and the Secretariat and rotational needs.

Thus, this core group of given Executive Board members - Italy, India and Mexico (11th IEF), Qatar and China (10th IEF, where Italy was the second co-host), Saudi Arabia and the IEA and OPEC Secretariats have selected Algeria, Germany, Kuwait and the United Kingdom as new members of the Executive Board, replacing previous members of the Executive Board Iran, the Netherlands, Norway and South Africa, while inviting Japan, the Russian Federation and Venezuela to continue to serve on the new Executive Board for the membership balances mentioned above.

The 12th Meeting of the IEFS Executive Board will take place in Rome, Italy on 16 January 2007.
The role of international organisations, and among them the International Energy Forum, grows significantly under these conditions, in search of mutually beneficial solutions for regional energy security systems, for development of regional energy markets, higher market predictability through extension of long-term contracts, development of the dialogue between energy producers and consumers etc.

The IEF establishes an excellent platform for an active cooperation in these forms between market participants. In April this year, I made a speech on global energy security at the 10th IEF Ministerial. As a result of many discussions with my colleagues from different countries, I concluded that on the eve of the G8 Summit Russia was able to pinpoint priorities of the global discussion on energy security which found complete understanding among market participants.

We highly appreciate IEF efforts to develop international energy dialogue, and in the G8 Declaration we invite the Forum to study ways of broadening the dialogue between energy producing and consuming countries on these issues including information exchange on their medium- and long-term respective policy plans and programs. Russia continues to participate in the Executive Board of the IEF Secretariat. We also support the Joint Oil Data Initiative (JODI) managed by the IEF Secretariat. We believe it is important to take further action to improve and enhance the collection and reporting of market data on oil and other energy sources by all countries including through development of a global common standard for reporting oil and other energy reserves.

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The role of international organisations, and among them the International Energy Forum, grows significantly under these conditions, in search of mutually beneficial solutions for regional energy security systems, for development of regional energy markets, higher market predictability through extension of long-term contracts, development of the dialogue between energy producers and consumers etc.

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IEFS ACTIVITY UPDATE

14-18 August 2006: IEF Secretariat organized first JODI regional training session for Latin American countries in Caracas, Venezuela in co-operation with the Government of Venezuela, PDVSA and OLADE.

21 August 2006: Secretary General had bilateral consultations with UK Minister of Energy H.E. M. Wicks in Stavanger, Norway.

24 August 2006: The IEF Secretariat held a side-event on JODI in co-operation with the Ministry of Petroleum and Energy of Norway at the Offshore Northern Seas Exhibition and Conference (ONS) in Stavanger, Norway.

12 September 2006: Secretary General spoke on “Producer-Consumer Relations in a New Era” at the 3rd OPEC International Seminar, Vienna, Austria.

12 September 2006: Secretary General addressed a Special Meeting of the Permanent Council of the Organisation for Security and Co-operation in Europe, Vienna, Austria.


21 September 2006: Energy Director S. Nachet participated in panel discussion at EU-OPEC Workshop on Carbon Capture and Storage in Riyadh.

23 September 2006: The Secretariat hosted 11th Meeting of the IEF Executive Board in Riyadh, Saudi Arabia.

26 September 2006: Energy Director S. Nachet chaired Inter-secretariat meeting of JODI partners at OPEC Headquarters in Vienna, Austria.


30 October - 2 November 2006: Secretary General presented the global energy dialogue in the IEF at the inauguration of the “International Energy Week”, and at a workshop on “Energy Diplomacy” organised by the Ministry of Foreign Affairs of the Russian Federation in Moscow.

21 November 2006: Energy Director S. Nachet spoke on “Relations between Gulf Producers and Emerging Economies” at the 12th Annual Energy Conference of the Emirates’ Centre for Strategic Studies and Research, Abu Dhabi, U.A.E.


26 November 2006: Secretary General of OLADE, H.E. A. Rios Roca visited IEF Secretariat headquarters for discussion of inter-organisational co-operation, Riyadh.

28 November 2006: Senior Energy Analyst S. Serajmir spoke on “Global Energy Dialogue and the IEF” at UNCTAD Expert Meeting on Developing Countries in New Dynamic Sectors of World Trade in Geneva, Switzerland.

30 November 2006: Secretary General made keynote address on “Producer-Consumer Dialogue for Global Energy Security at First Global Energy Roundtable convened by H.E. S. Fahmy, Minister of Petroleum of Egypt, in Cairo.

9 December 2006: Mr. A. Kelly, Chair of US National Petroleum Council’s “Global Oil and Gas Study” visited Secretariat Headquarters to brief on NPC Study, for JODI update and to discuss co-operation.
The IEF Secretariat hosted the 6th International JODI Conference in co-operation with JODI partners on 25-26 November in Riyadh, Saudi Arabia. The Conference gathered more than 100 participants from more than 30 countries/economies, 10 international organisations and 10 oil companies and research institutions.

Inaugurating the Conference H.E. Ali I. Al Naimi, Minister of Petroleum and Mineral Resources of Saudi Arabia, emphasized the importance of the Joint Oil Data Initiative in improving oil data transparency, adding that the lack of transparent and reliable oil data has been identified as an aggravating factor in the high volatility of oil prices, along with factors such as geopolitics and market speculation. Minister Al Naimi underscored Saudi Arabia’s commitment to continue to provide the JODI World Database with the highest quality data possible and expressed the hope that all participating countries, producers and consumers, ensure complete, timely, reliable and sustained data submissions. Transparency can be achieved only if all parties involved in the oil market fully participate, the Minister emphasized.

The 6th International JODI Conference took place against the backdrop of high-level political expectation expressed by Energy Ministers at the 10th IEF Ministeral in April, by G8 Heads of Government in their St. Petersburg Plan of Action for Global Energy Security in July and later echoed by APEC and G20 Ministerials. Held exactly a year after the release of the World Database to the public, the Conference gave participants a timely opportunity to assess progress made so far, discuss how the database is perceived by users and potential users and to identify areas for improvement. The JODI partner organisations presented the findings of a user-survey and released the JODI Manual (which is available for download on the JODI website, www.jodidata.org). Partners also announced that the JODI World Database has been expanded to include data for refinery intake and refinery output, with effect from its November 2006 update.

The Conference acknowledged that the development of the JODI World Database is an imperative mechanism in promoting oil data transparency and a concrete outcome of producer-consumer cooperation. It also acknowledged the need for ongoing improvement, especially with respect to completeness and quality of data. JODI partners confirmed their resolve to carry the Initiative forward at a steady and sustainable pace.

Participants identified prioritized action to be taken to further improve data quality and extend the Initiative, including:

- To continue to improve completeness, timeliness and reliability of the data;
- To work more closely with a wider range of both data providers and users in order to improve the usefulness of the Initiative and the entire database;
- To extend the JODI questionnaire by disaggregating the existing flows and products.

The JODI partner organisations will submit to the participating countries/economies an expanded JODI questionnaire with additional flows and products to assess their ability to submit a larger data set.
International Energy Forum Secretariat

THE JOINT OIL DATA INITIATIVE

First JODI Training

The IEF Secretariat and the JODI partner organisations, with the cooperation of the IMF, held the first JODI training session for Latin-American countries in Caracas, Venezuela on 14 to 18 August 2006, hosted by the Ministry of Petroleum and PDVSA. More than 30 participants in charge of collecting energy data in 14 Latin-American countries attended.

The purpose of this and subsequent training sessions is to help the participating countries to report better quality data to JODI. The Caracas workshop offered participants clarifications about the definitions used in the JODI questionnaire. Data quality, legal framework and confidentiality of oil statistics were discussed, and common practices in gathering oil data compared. The comments received will help the JODI partners to improve the organisation of the next workshops and deepen the cooperation between organisations and participating countries. Following the workshop, OLAD is now receiving more information regarding JODI from its Member Countries and some have created special committees to work on JODI.

JODI training is part of a broader plan of action, which also includes the dissemination of the JODI Manual and direct communication with countries, to improve the timeliness, completeness and reliability of the data.

Inter-Secretariat JODI Meeting

This broader action plan was further discussed on 26 September 2006, when OPEC hosted an Inter-Secretariat JODI meeting at its headquarters in Vienna, Austria. Partner organisations envisaged a second training session in South Africa in January/February 2007 focusing on Sub-Saharan countries. A third workshop for Middle East and North African countries will be organized during the second half of 2007. If resources allow, a workshop for Caspian countries could take place during 2007 as well.

A final version of the JODI Manual has been prepared by the partner organisations. Its objective is to disseminate the data transparency message and to clarify the definitions and methodologies utilized in the submission of JODI data. The manual is a living document - comments and suggestions are actively encouraged. A preliminary Spanish version of the methodology manual was distributed to the participants in the first JODI training session in Caracas.

The Vienna meeting discussed the preparations for the 6th International JODI Conference which took place in Riyadh, Saudi Arabia (separate article on page 14).

Promoting JODI


On 15-17 July 2006, G8 Heads of Government reiterated their support to the Initiative at their Summit meeting in St. Petersburg, Russia (separate article on page 3).

On 24 August 2006, the IIFS hosted a side-event on JODI at the Offshore Northern Seas Exhibition and Conference (ONS) in Stavanger, Norway. This Conference gathered representatives of oil companies, government officials, media and consultants and was a unique opportunity to present the IEF and to further promote JODI. The IEF Secretary General opened the event followed by a keynote speech by Deputy Minister of Petroleum and Energy of Norway A. Utseth. IIFS Analyst B. Castellano made a detailed presentation of JODI.

On 25 October 2006, on the occasion of its 5th Annual Workshop on Energy Statistics which took place in Tokyo, APEC dedicated one day to presentation and discussion of JODI. Several representatives of its Member economies as well as the IEA and the IIFS attended the meeting.

In November, JODI was also highlighted at the 18th APEC Ministerial Meeting in Hanoi, Vietnam, at the G20 Meeting of Finance Ministers and Central Bank Governors in Melbourne, Australia and at the 1st Global Energy Round Table in Cairo, Egypt.

Participation in JODI

Every six months, the seven JODI partner organisations present an update of a table depicting the participation of countries/economies in JODI showing “smiling”, “neutral” and “grumpy” faces to characterize the JODI partners’ degree of satisfaction with data submissions.

The results of the latest assessment available on the JODI website covering the period from January to June 2006 are encouraging. Compared to the last exercise (from July to December 2005), the number of “good” smiling faces increased from 52 to 57% of the total, whereas “grumpy” faces decreased slightly from 33 to 32%. Almost half of the countries/economies have three “happy” faces.
INTERNATIONAL ENERGY FORUM

The 10th IEF, hosted by Qatar on 22-24 April 2006, marked fifteen years of informal and forward-looking dialogue on energy at the level of Ministers. It gathered Ministers and senior officials of 59 key energy producing and consuming countries. Ministers addressed issues of energy security and the links between energy, environment and economic development. Recognizing the crucial role of industry, IEF Ministers interacted also with CEOs of leading energy companies in the 2nd International Energy Business Forum.

The on-going political level dialogue in the IEF transcends traditional political, economic and energy policy dividing lines between nations at a time of increasing interdependencies. Italy will host the 11th IEF and 3rd IEBF in Rome in 2008, assisted by India and Mexico as co-hosting countries.

The IEF Secretariat is an intergovernmental entity set up in December 2003 and headquartered in Riyadh, Saudi Arabia to enhance and provide continuity to the unique global dialogue on energy in the IEF. The Secretariat also serves as co-ordinator of the Joint Oil Data Initiative with the support of APEC, Eurostat, IEA, OLADE, OPEC and the UN. The Secretariat hosted the 6th International JODI Conference in Riyadh on 25-26 November 2006.

IEF Participants

ALGERIA ANGOLA ARGENTINA AUSTRALIA AUSTRIA BAHRAIN BANGLADESH BELGIUM BRAZIL BRUNEI CANADA CHINA CZECH REPUBLIC DENMARK ECUADOR EGYPT FINLAND FRANCE GABON GERMANY GREECE HUNGARY INDIA INDONESIA IRAN IRAQ IRELAND ITALY JAPAN JORDAN KAZAKHSTAN KUWAIT LEBANON LIBYA MALAYSIA MOROCCO NETHERLANDS NEW ZEALAND NIGERIA NORWAY OMAN PAKISTAN PHILIPPINES POLAND PORTUGAL QATAR ROMANIA RUSSIA SAUDI ARABIA SLOVAKIA SOUTH AFRICA SOUTH KOREA SPAIN SRI LANKA SUDAN SWEDEN SWITZERLAND SYRIA THAILAND TRINIDAD & TOBAGO TUNISIA TURKEY UAE UK USA VENEZUELA VIETNAM YEMEN EC GCC IEA OAPEC OPEC UN WTO

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