The future of producer-consumer dialogue post-Cancun

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The producer-consumer dialogue is thriving and poised to make an even larger impact on global energy security. IEF12, held in Cancun, Mexico in March 2010, drew more than 100 delegations and illustrated the vibrant health of the dialogue today. Sixty-three Ministerial delegations joined 14 international organisations (including the World Petroleum Council) in a frank and open dialogue about the issues facing today’s producers and consumers of energy. Thirty-seven top level representatives from industry, including both international and national oil companies, also joined the dialogue in our most widely attended and successful IEF to date. The growth from 2008’s IEF11 was plainly evident. Ministers, CEOs and international organisations are more committed than ever to making the dialogue through the International Energy Forum as fruitful as possible and thus help to create efficient and effective market conditions throughout energy sector.

In addition to being an inimitable venue for energy dialogue, the IEF Ministerial is an opportunity to take stock of the two years since the last Ministerial. One would be hard pressed to find a more turbulent and uncertain two-year period than that between 2008 and 2010. In oil markets, prices fluctuated between a high of nearly US$150 in July 2008 to a low in the US$30s by December 2008, although, prices have since recovered. Today, prices appear relatively stable but, as IEF Ministers wisely noted, the relationship between the two markets has changed, why those changes have occurred and what may be in store for the relationship as each market matures.

A successful producer-consumer dialogue can achieve greater transparency of historical and future market data and greater predictability of energy policies.

In combination with that workshop in November, the IEF, IEA and OPEC will also be holding a round table for energy market regulators. The cutout over ‘excessive speculation’ in 2008 and 2009 joined a call for greater market regulation but regulators are only capable of enforcing law within their own jurisdictions. Unfortunately, arbitrageurs have a long history of moving to the least regulated markets. With regulatory proposals at varying stages of development in major markets, a degree of timely cooperation between regulators around the world is necessary if implementation to is to have the desired effect. The IEF hopes to aid in that cooperation and, with the round table, examine the current and potential effects of regulation that have been enacted or proposed. Markets are truly international and if regulators intend to have a significant impact on markets, coordination will be necessary.

Another issue consistently raised by Ministers and market participants to uncover how the relationship between the two markets has changed, why those changes have occurred and what may be in store for the relationship as each market matures.

To reduce some of that uncertainty, the IEF, in conjunction with the IEA and OPEC, will be hosting the first Annual Symposium on Energy Outlooks in January 2011 at its offices in Riyadh. We hope to bring more clarity to some of the diverging assumptions made in these outlooks and explain more clearly to the outside world and the markets what the key factors are that explain the differences in the future outlooks.

As mentioned above, the interdependency of today’s market is inescapable. Ministers at both IEF12 and IEF4 noted the increasingly close working quarters that a more globalised market demands. As a result, the relationship between IOCs and their national hosts must be fortified. Success in today’s economic environment is determined by one’s willingness to engage partners with due respect for their strengths, weaknesses and respective roles in the project at hand.

Equal footing and respect is vital to effective cooperation and long-term partnerships but both companies and countries were clear— their roles are different and should, for the most part, remain so. In Cancun, the work of the IEF in the realm of NOC-IoC cooperation was welcomed by Ministers and, in an endorsement of the event itself, many expressed interest in sending delegations to the next IEF Forum on NOC-IoC cooperation.

IEF12, held in Cancun, Mexico in March 2010

Delegates interact during the plenary session of the 12th International Energy Forum, Cancun, Mexico, March 2010

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wider lessons that can be gleaned from its application in oil production. Of course, CCS has a long road ahead towards large scale commercialisation but the foundation for best-practice sharing, international cooperation that enables the technologies in use in CCS and innovative methods to develop and deploy the technology must be forged today. CCS development is a vital component of a low-emissions energy future and the IEF hopes to hasten the commercialisation of the technology so that our simultaneous goals of energy security and climate responsibility can be met.

Of course, energy efficiency does not end at the point of production. Energy efficiency has been, and will be for some time, the low hanging fruit of carbon mitigation and energy security. We must do more with less. Efficiency will never carry the sex appeal of renewable energy but its potential to drive down emissions, especially in the short and medium term, outweighs that of any other technology. Energy efficiency programmes have been most active in developed economies which have stronger price incentives and are better equipped, financially and otherwise, to implement them. But there is great potential in developing economies to build in efficiency as their infrastructure systems grow and their consumption rises. The future of demand growth is in the developing world and the window to fully integrate efficiency measures into their development is closing fast. Naturally, this includes oil- and gas-producing countries as well, where domestic oil and gas consumption has been increasing at more than twice the global growth rate in the past ten years alone, thus potentially threatening future export growth. With this in mind, the IEF, in cooperation with the government of Japan, will be hosting a symposium on Energy Efficiency in the Developing World in 2011. The symposium will bring together efficiency experts from around the world to explore the lessons learned in the developed world, examine the programmes that would work best in developing countries, and inform governments on the best means to build efficiency incentives into their growing economies.

IEF12 took clear advantage of the International Energy Forum’s greatest strengths – its role as a neutral facilitator of dialogue and the convening power of the world’s most inclusive energy organisation. The opportunity to meet, debate and explore issues of common concern was not lost on any of IEF12’s participants. But there was more to their participation than that discussed in Cancun. Sixty-six countries, including all the major energy players declared their commitment to the future of the IEF and the global energy dialogue by approving a landmark document in the organisation’s history, the Cancun Declaration. The Cancun Declaration established a solid foundation for the future of the global energy dialogue. The Declaration set a path forward for the IEF based on its vital informality, its dedication to honest and respectful dialogue, and its contribution to global energy security through the provision of balanced research and valuable energy market data. The 66 countries recognise that today’s energy sector is highly interdependent and success, both today and in the future, will require open lines of communication and stronger cooperation among its players.

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Their commitment to the IEF is indicative of the faith they have in the institution, but also of the broad acknowledgement among the world’s energy ministries that complex global problems in today’s interdependent world require an intensified and productive global producer-consumer dialogue. And with the Cancun Declaration the IEF has begun the process of drafting an IEF Charter for its future which needs to be completed and approved in a separate IEF Ministerial Meeting before March 2011 in Riyadh. As the dialogue matures, we look forward to engaging with every element of the energy industry as we believe that focus, inclusivity and informality are the most powerful factors of a productive dialogue. A successful producer-consumer dialogue can achieve greater transparency of historical and future market data and greater predictability of energy policies, thus lowering transaction costs and helping to create efficient and effective market conditions. We look forward to a very busy programme of work over the next two years and to delivering concrete results in improving investment, transparency and sustainability in the oil and gas sector on the way to IEF13, to be held in Kuwait in 2012.