The 12th IEF in Cancun on 30-31 March was a dramatic step forward for the International Energy Forum and the global energy dialogue. The IEF convened this year with 103 delegations in attendance, including 63 ministerial delegations and 14 international organizations. In addition to these vital components of the energy dialogue, the two day event was also marked by an extraordinary level of participation from CEOs and ministers in the fourth meeting of the International Energy Business Forum (IEBF). Top level representatives from 36 international and national oil companies participated in the event and ministers heard spirited discussion from pillars of industry, including ExxonMobil CEO Rex Tillerson and Saudi Aramco CEO Khalid al-Falih. The level of participation and degree of commitment on display at IEF12 and IEBF4 was clear proof of the dialogue’s maturity and testament to its increased importance to help create efficient and effective market conditions in the entire energy sector, from the producer’s well to the consumer’s wheel.

**Enhanced Framework For The IEF**

Both IEF12 and IEBF4 demonstrated that the IEF’s strength is in its comprehensive cover and inclusive nature. No other organization or event has the convening power to bring together the full spectrum of stakeholders like the IEF. The fruits of the energy dialogue, as witnessed in Cancun, are illustrative of the IEF’s positive contribution to global energy security. In recognition of the need to maintain the current momentum and build a more robust dialogue, 66 producing, consuming and transit states affirmed their commitment to the IEF and signed on to the Cancun Declaration. The characteristic informality of the IEF, which is so crucial to frank and open exchanges of views, will remain a key feature of the Forum’s modus operandi. However, this landmark document lays the foundations for a stronger institution through an enhanced framework for the IEF and proposes ways to mitigate energy market volatility, improve mutual understanding and trust building and encourage widespread and active involvement in a more informed, focused and fruitful dialogue.

IEF12 may have been held during a period of relative calm with respect to energy prices, but such stability is new and its longevity is uncertain. The two years between IEF11 and IEF12 were marked by unprecedented volatility in energy markets. The story of the rollercoaster ride from nearly $150/B in July 2008 to below $40/B in December 2008 hardly needs repeating, but energy ministers gathered at IEF12 were fully cognizant of the threat that recurrent instability poses to market functionality, investment, and future supply and demand of the entire energy mix. Ministers were eager to learn the hard lessons of that period and, as was demonstrated by the Cancun Declaration, are committed to avoid a return to the volatility that marred much of 2008 and 2009. They welcomed the unique program of cooperation
agreed upon by IEA, IEF and OPEC which focuses on enhancing data transparency, the physical and financial market linkages and energy market regulation and shared analysis of future trends.

Reducing Energy Market Volatility

To address volatility, ministers gathered at IEF12 called for a stronger Joint Oil Data Initiative (JODI), as coordinated by the IEF Secretariat in cooperation with APEC, Eurostat, IEA, OLADE, OPEC and UNSD, and an expansion of its data collection process. As they noted, the coming shift in demand growth away from the OECD presents genuine concerns about data clarity from the developing world. Supply and demand numbers from the developing world have an increasingly important role to play in both markets and investment decisions. More specifically, data on crude and product stocks in developed economies are essential to price formation, but for much of the developing world that information is either unavailable or in need of considerable improvement. Without confidence in the data, market participants are forced to make educated guesses. Improved and more comprehensive data can reduce risk, provide clarity to the market and offer the type of transparency that investment decisions require. The heads of JODI organizations, meeting in Cancun, called on participating countries to further improve the completeness and quality of the data they submit to JODI and urged greater clarity on oil stocks and demand data. They also urged ministers to provide adequate resources within supportive regulatory frameworks that favor transparency and facilitate industry participation in JODI. Ministers at IEF12 noted the success of JODI in achieving greater transparency thus far and advocated its continued expansion and improvement. JODI recently began an expansion to natural gas and, as was originally advocated in the Jiddah and London ad hoc Energy Meetings, is exploring further expansion into the difficult but incredibly important realm of annual data on upstream and downstream capacities and expansion plans (in oil and gas). JODI’s move into gas comes at a crucial moment for the resource as climate concerns draw greater attention to natural gas as a destination fuel in a low‐emissions economy. This will surely feature prominently in discussions during the second IEF‐IGU Ministerial Gas Forum in November 2010 in Doha, organized with the support of the government of Qatar.

Ministers at IEF12 also noted that greater transparency is needed beyond production and consumption. The volatility of 2008 and 2009 directed global ire toward “speculators” and the role that financial instruments played in crude oil’s run up and subsequent collapse, but much of the industry remains in the dark on futures market functionality and price discovery mechanisms in today’s market. Experts and regulators alike have called for greater transparency in the paper market for oil. Recent additions, like the Commitment of Traders report by the CFTC in the US, have added a modicum of clarity but much of the market remains opaque. Arbitragers 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 is to have the desired effect. In recognition of this need for greater coordination among regulators, the IEF will be working closely with the IEA and OPEC on a round table for regulators in November of this year. The round table will hear regulatory proposals from the major trading centers, including the US and the UK, and examine how and where previous regulation has been successful. Interdependence in the energy industry was discussed at length at IEF12 but that interdependence is even more pronounced in financial markets and regulation. After all, capital will always move quicker than a derrick or an offshore platform.
Transparency must also extend to the areas between markets, most notably the dark space between the financial and physical markets for oil. Several experts have noted a paucity of research in relation to this topic. Prices in the physical market for oil are assessed and published by a few reporting agencies, but the way in which those prices then inform the financial markets for oil is still relatively unclear. Prices in the physical market are referenced in the pricing of OTC or over-the-counter transactions, but changes in the broader market for energy, including demand centers and benchmark liquidity, may have affected the way in which these markets interact. To remedy this lack of understanding, the IEF, IEA and OPEC will be holding a workshop, back to back with their roundtable for regulators in November 2010, on the linkages between the physical and paper markets for oil. The workshop will bring together financial institutions, reporting agencies, regulators and commercial 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.

The third important topic of the new IEA/IEF/OPEC program of cooperation is the shared analysis of energy market trends and outlook. The IEF will act as a platform for sharing insights and exchanging views about energy market trends and short, medium and long term energy outlooks. This joint activity can help to reduce uncertainties in the market by clarifying why outlooks do differ and which key factors explain these differences. A first Annual Symposium on these outlooks is planned for January 2011 at the IEF Secretariat, in cooperation with the IEA and OPEC, with participation from the main institutions that publish regular energy outlooks.

**Facilitating NOC/IOC Cooperation**

With an investment need of over $25 trillion between now and 2030, IEF12 and IEBF4 rightly focused on investment in the energy industry. IEBF4, in particular, brought issues of cooperation among governments and industry to the fore in its discussion of smoothing investment timelines. CEOs in attendance echoed the ministers’ interest in achieving full market transparency, but also suggested that deeper ties between themselves and their host countries would improve returns for both parties. Returning to the theme of interdependence and cross-investment along the supply chain, nearly every participant alluded to the increasingly close working quarters that a more globalized market demands. 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 as such. An issue like corporate social responsibility may be tangential to investment but was discussed at length because CEOs acknowledged that responsible and sustainable practices are an integral component of a healthy and symbiotic professional relationship between companies and host countries.

The work of the IEF in the realm of national oil company/international oil company (NOC/IOC) cooperation was welcomed by ministers and, on the sides of the event itself, many expressed interest in sending delegations to the next IEF forum on NOC/IOC cooperation, to be held in Paris and hosted by Total in the spring of 2011. Participants at that event will attempt to distil from their experiences a
written set of IEF general principles or guidelines for mutually beneficial and effective NOC/IOC cooperation, as a possible concrete tool to facilitate this cooperation.

Fighting Energy Poverty And Mitigating Climate Change

Another recurrent theme during IEF12 was the issue of sustainability. It remains shocking and unacceptable that billions of people around the world lack access to modern fuels and electricity, thus inhibiting their social, human and economic development. A number of IEF countries are battling energy poverty inside their borders and, as is often the case with difficulties of this type, the solution is in part international. Ministers stated that reducing energy poverty should be added as the ninth goal in the Millennium Development Goals. The debate in Cancun added to the conclusions of the IEF’s symposium on energy poverty, held in Johannesburg in December 2009, by focusing on how energy poverty remedies must be comprehensive, international and tailored to individual countries. The IEF Secretariat was called on to keep energy poverty high on its future agenda.

Sustainability is of course a broad topic, but within the industry it often means producing more energy with fewer emissions. An integral component of that theme is CCS or carbon capture and storage. In September 2009, the IEF held a symposium on CCS in conjunction with the Global CCS Institute in China. To build on the lessons learned at this event, the IEF will hold another event of its kind in Algeria in June 2010, organized with the support of the government of Algeria. CCS has a long road ahead toward commercial deployment but, as so many ministers and industry experts have acknowledged, it is vital to the environmental health of our world. Carbon mitigation is of course an international issue and dialogue and cooperation among nations on a clear international regulatory framework for CCS and an effective price on CO2 can aid in the eventual deployment of full-scale CCS facilities. Where CCS can be deployed in conjunction with enhanced oil recovery (EOR), it can be a catalyst and stepping stone for wider commercial deployment of CCS. Ministers called for CCS to be included in the Clean Development Mechanism (CDM) and other future financial mechanisms and for better public awareness of the importance of CCS.

Energy efficiency was also discussed at great length by a number of ministers and international organizations. Efficiency has long been the ‘low-hanging fruit’ for carbon mitigation and energy security and still has a tremendous amount of potential. 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. Efficiency measures are relatively inexpensive to implement, fit within existing infrastructures, and don’t necessarily require legislative initiatives to make them effective. Until recently, energy efficiency programs have been active mainly 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 is in the developing world and the window to fully integrate efficiency measures into their development is closing fast. 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 which programs would work best in
developing countries, and inform governments on the best means to build efficiency incentives into their growing economies.

The Way Forward

IEF12 covered a lot of ground and brought together the largest group of energy ministers and industry executives in the world. The event also laid the first brick in the path to a new, more robust institution and more focused, productive global energy dialogue. The Cancun Declaration, signed by 66 countries, established an ambitious timetable to begin work on an IEF Charter which will encourage greater commitment from IEF countries, expand the purview of the IEF’s work and, most importantly, enliven and enhance the global energy dialogue as a whole. Work on the drafting process has already begun and ministers will convene again before March 2011 in Riyadh to approve the newly drafted IEF Charter and to discuss progress on the analytical work of the IEF, IEA and OPEC as outlined above.

IEBF4 and IEF12 was a resounding success by nearly every account. The participation demonstrated the commitment of ministers, CEOs and international organizations, but the free and open manner in which participants engaged with each other, both inside the room and in their countless bilateral meetings, demonstrated the contribution of the IEF to the energy sector. As a neutral facilitator and promoter of dialogue, our mission is to ask the right questions to our ministers, push them to engage on topics of global concern and to make certain that they can come to an IEF Ministerial on equal footing with every other participant, despite economic or political differences. A successful producer-consumer dialogue can achieve greater transparency of market data and predictability of energy policies, thus lowering transaction costs and helping to create efficient and effective market conditions. The IEF exists to serve ministers and the energy industry and we, like they, are pleased with the outcome of IEF12. We are looking forward to the work of the next two years by delivering concrete results in improving investment, transparency and sustainability in the oil and gas sector on the way to IEF13 in Kuwait in 2012.