

Deputy Secretary Daniel Poneman
IEF Session 2, “Energy Markets: Mitigating Volatility”
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I would like to begin by thanking Dr. Shihab Eldin for moderating our session today and Minister Knapen for chairing.

The United States also thanks our Kuwaiti hosts for their hospitality.

Today’s discussion is of critical importance. The prosperity and security of all nations depend vitally upon energy. Together, we face the challenge of strengthening traditional energy markets even as we advance the urgent task of transitioning to a low-carbon economy.

Oil and gas contribute vital energy resources to the world economy, and will continue to do so for decades to come, as the projections of both the International Energy Agency and the US Energy Information Administration have made clear. To that end, the United States is committed to developing our own oil and gas resources, safely and responsibly, while we also promote open and stable rules of the road that enhance the efficient operation of energy markets worldwide. Transparent energy markets support healthy economic growth and secure global energy supplies. They also facilitate expanded global trade and investment in energy resources and technology.

In recent months, the world oil market has become increasingly tight. Global liquid fuel consumption has reached historically high levels.

With respect to supply, the last two months have witnessed a number of disruptions, including production drops in several places. At the same time, other developments have added to global supplies, which may help relieve tight market conditions and mitigate volatility.

In the United States, crude oil production reached its highest level since 2003, reaching 5.6 million barrels per day. The Energy Information Administration projects that US production this year will grow by an additional 230,000 barrels per day.

On balance, however, despite these examples of increased production, the current oil market is very tight, as is reflected in high oil prices. These high price levels concern us greatly, as they threaten economic growth and prosperity worldwide. Left unchecked, they can also lead to demand destruction and global recession, as the world witnessed with the disastrous price spike and following crash during 2008. None of us wants to return to that scenario.

The potential for uncertainty surrounding additional supply disruptions can cause volatility in oil prices. One of the most effective counters to volatility is spare oil production capacity.

Currently, EIA estimates that spare OPEC oil production capacity averaged 2.5 million barrels per day during January and February this year, compared with a 2009-2011 average of 3.5 million barrels per day. Therefore, spare oil production capacity is currently quite modest, relative to historical levels. Spare capacity must also be considered in the context of current geopolitical uncertainties.

Since spare capacity ultimately reflects the match of production capacity against the demand for that capacity, we need to take steps to encourage supply growth, discourage subsidies on consumption, and

develop an “all of the above” strategy for global fuels. This situation also reflects the need for greater transparency in the market.

The interplay between physical and financial markets is complex and merits continued discussion through IEF workshops and other venues.

To be clear, financial markets play a legitimate role in helping purchasers price fuel against an uncertain future. Indeed, hedging is critical to providing stability in the marketplace. That said, market manipulation, if it is occurring, would threaten not only stability but also global growth. That is why President Obama has directed our Attorney General to launch a task force aimed at rooting out cases of fraud or manipulation in the oil markets, including any illegal activity by traders and speculators.

As for geopolitical factors, the United States is working with allies and partners around the world to reduce regional and global concerns that could create market uncertainties which would have an adverse effect on prices.

Transparency in oil markets is also vital in making sure financial markets reflect accurate information and operate efficiently. It is the best tool that we have to mitigate volatility, which thrives of uncertainty and insufficient or inaccurate data.

That is why the United States supports the IEF’s efforts to increase available data on oil production and consumption. We are pleased to be a part of the Joint Organisations Data Initiative (JODI) and support recent JODI initiatives to create similar natural gas and energy investment databases.

As the United States promotes transparency with our international partners, we are also taking steps at home to address energy production and consumption.

We are taking action to help provide relief to consumers squeezed by gas prices. For example, we are working to increase permitting of oil development on federal lands, both on and offshore, and to ease delivery bottlenecks.

At home and abroad, we are working to promote transparency so all consumers and traders can better understand what’s going on in oil markets.

The United States supports an IEF that provides a neutral venue for producers and consumers to discuss areas of mutual concern. The IEF is most useful when promoting a common understanding of energy market transparency, stability, and sustainability.

We are grateful for the leadership of King Abdullah, Minister Naimi, and Prince Abdulaziz, whose efforts catalyzed the formation of the IEF, while also providing a home to the IEF Secretariat.

Together we can build confidence and trust through improved information sharing among Members. The Forum can help reconcile varying views and positions on the global oil market, and promote responsiveness to members’ concerns.

The United States supports that vision, and I look forward to working with my colleagues here today to build a stronger, more prosperous and more secure future. Thank you.