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The Consumer-Producer Dialogue: Themes and Prospects

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Main Themes

- Theme 1: Oil price stability
- Theme 2: Physical disruptions and energy security
- Theme 3: Spare capacity
- Theme 4: Investment in the energy sector
- Theme 5: Role of signalling and shaping market participants' expectations

Oil Price Stability

- Wide Range within which the oil price can clear
- Low oil prices
 - Undermines security of supply
 - Cycle of underinvestment
 - Undermines political and social stability
 - Undermines conservation and climate change agenda
- High oil prices
 - Undermines security of demand
 - Slowdown in global economic growth & global imbalances
 - Oil demand reduction

Oil Price Stability

- Producers and consumers have interest in keeping oil price stable within a range whose lower boundary **not too low** or upper bound **not too high**
- What is too high or too low?
- Market or other mechanisms
- Divergent interests
- How to bridge short term interests with long term interests?

General Statements

- “reduce price volatility in the interests of producers and consumers” because volatility “complicates the interpretation of market signals and may adversely affect investment”
- “both producer and consumer countries...to take action to reach sustainable price levels”
- “oil prices should be at levels that are acceptable to producers and consumers to ensure global economic growth, particularly in developing countries”
- Does failure to bargain about price levels or to manage price level within bounds mean that producer-consumer dialogue has failed?
No!!!

Physical Disruptions

- Supply disruption caused by Gulf War in 1990-1991 proved to be decisive as it increased awareness and revealed usefulness of coordinating actions in key areas such as use of stocks and spare capacity
- Libyan disruption in 2011 put serious strains on consumer-producer and producer-producer relations

Spare Capacity

- Maintaining spare capacity responsibility of consumers as well as producers and extending to the entire supply chain
- Complex issues surrounding spare capacity:
 - Does spare capacity constitute a global public good?
 - Should all parties share the cost of maintaining spare capacity?

The Investment Issue

- Recurring theme in most IEF Ministerial meetings
- Asymmetry
- ‘favourable energy, fiscal, investment and environmental relations’
- Agenda broadened
 - Reduce long-term uncertainty
 - Enhance cooperation between NOCs, IOCs and SC
 - Broaden cooperation and exchanges in fields of human capital and technology advancement

Signalling

- Stabilise market participants' longer-term expectations about a range of oil prices which both parties consider acceptable
- If anticipated government responses are slow, or are perceived to be absent on either the demand or supply side.

Milestones

- Consumers and producers have overcome some of their past myths, fears and suspicions and have become more aware of a number of common challenges facing energy markets
- Institutional structure supporting dialogue continues to strengthen
- Structure and quality of the dialogue improved over years
- Establishment of the Joint Oil Data Initiative (JODI).

Challenges

- Avoid confrontational topics & focused more on themes that can bring them closer together
- Long-run risk of key issues that lie at the heart of consumers' and producers' concerns becoming marginalised
- Greater understanding of nature of the investment problem but concrete initiatives to alleviate the investment constraints remain limited