

## **IEF MINISTERIAL**

**(12 – 14 MARCH)**

### **SESSION 4**

#### **The Global Situation**

The world is an uncertain place, going through difficult economic times. Recent, unprecedented global energy events have had an impact on energy markets – e.g. the Macondo accident in the Gulf of Mexico, events in the Middle East and so called Arab Spring, the tragic events at Fukushima and now the situation in Iran. All have created uncertainty and the need for reflection.

Whilst oil prices are relatively high in historical terms, to some extent the impacts of these events have been muted by a relatively benign market. Energy demand and investment levels have been restrained in the current economic conditions. This will not last forever and at some point demand will start to increase again, possibly quite sharply, and concerns about future supplies meeting demand will return.

#### **Priority themes**

This will increase political focus on our three global energy challenges.

Maintaining Energy Security – where we need to improve the transparency of markets, gain a better understanding of future demand and supply and reduce price volatility.

Mitigating Climate Change – where we need to accelerate energy efficiency improvements and increase the deployment of clean technologies such as renewables and carbon, capture and storage.

Increasing Access to Electricity – where we need to map the challenge, identify solutions and spread the availability of technologies.

All three are important but without the first – maintaining energy security – you will struggle to make progress on the second and third. So I would argue that the first is likely to remain a priority for Ministers and is the most relevant to the work of the IEF.

#### **Many challenges**

But prioritising the work of the IEF is not easy. There are number of areas where the IEF could focus its efforts:

- Oil will remain central to the energy world, so the work on price volatility should continue.
- Gas will increase its role and become increasingly important to both energy security and climate mitigation.
- Coal is crucial for certain countries but it needs to reduce its emissions and carbon, capture and storage is essential. Ultimately for gas as well as coal.
- Energy efficiency can make a huge difference but it's full potential is rarely realised.
- The expansion of nuclear has been slowed by events at Fukushima and remains controversial in some countries.
- Renewables is expanding rapidly, but from a low base, and there are concerns about costs.

## **The Role of the IEF**

These challenges require global debate and international collaboration. And the IEF, with its membership from producer, consumer and transit countries, is in a unique position to facilitate that discussion.

Many of you will be familiar with the development of the new IEF Charter and the agreed work programme between the IEF, IEA and OPEC. It was established because of Ministerial concerns about oil prices and the need to gain a better understanding of the drivers of price volatility.

The process to establish the Charter, so ably led by His Royal Highness Prince Abdulaziz bin Salman, was based around extensive discussion by members but also benefited from input from a well informed Group of Experts. It was a process with much to commend it and one from which we can draw lessons.

With so many countries signing-up to the new Charter it demonstrates your commitment to the IEF and the importance of an enhanced dialogue.

The programme of work over the last two years has been driven by Ministers concerns about oil price volatility and their request that experts look at how volatility could be reduced. This led to work in three main areas:

(1) Improving the transparency and quality of oil market data on current oil supply, demand and stocks – well known to us all as “JODI”. Coverage, timeliness and reliability have all been improved but there is still some way to go and the momentum for further improvements must be maintained. In addition, the exercise is to be expanded to cover gas and investment data.

(2) Understanding the interactions between physical and financial markets. This remains an area where views continue to differ – but the interactions are complex and it will take time to understand the relationships better. But it is clear that the financial markets will continue to play a role and discussion with market participants and regulators is an important step forward.

(3) Sharing views on energy outlooks, both in the near and long term. Markets hate uncertainty and the future will never be clear cut. But we need to understand better the drivers for future demand and the prospects for supply meeting demand.

As we have heard there has been substantial progress in all three areas.

### **A Successful Phase 1 – Now for Phase 2**

There is a wealth of challenges to explore and the IEF cannot do everything. So it needs to prioritise and focus on the most productive areas for discussion. I hope that this afternoon’s speakers can help us identify those priorities.

Political worries will continue to be around prices, the pace of climate mitigation and access to electricity – and progress in all these areas will be determined by whether adequate levels of investment in energy infrastructure are forthcoming. Whilst huge levels of investment are needed, and that is the ultimate challenge, there is much that can be done to encourage that investment – particularly through better functioning markets and greater market transparency.

But can I suggest some priorities, for what I will call Phase 2, to initiate discussion.

My first priority would continue to be oil. Oil will remain a dominating component of the energy balance with oil prices the driver for energy prices more generally. Concern about prices, and their impact on what is a very fragile economic recovery is likely to be an increasingly political issue. The current work on reducing oil price volatility – understanding price formation and physical/financial market linkages, comparisons of different views on and energy outlooks, and the work of JODI – improving quality and potentially expanding it to all energy sources – should all continue.

Consumer countries are worried about future supply, but to a large extent investment is determined by the demand outlook, so producers are worried about future demand. So we need to look more closely at both supply and demand. This suggests two priorities:

- (a) On supply put more effort, and resource, into developing the new investment database for upstream and downstream activities as part of JODI. But this is not easy – it needs a different approach and huge political commitment.
- (b) Put more effort, and resource, into developing better data on possible future paths of oil demand. Under all likely future scenarios, even those with ambitious climate change targets, the world will require more – not less oil.

Better information, and understanding, of the future will influence market “expectations” and as one of the most important drivers of price contribute to greater market stability.

## **Other Possible Priorities for Phase 2**

I would suggest five further priorities where we need a better and more informed discussion:

- (1) Deepening our understanding of future demand trends, particularly in emerging economies – how fast will economies grow and will growth in energy demand mirror past experience in other countries, how far will trends in energy efficiency and low carbon technologies reduce demand for fossil fuels? There are lots of unknowns.
- (2) Deepening our understanding of the constraints on investment and whether investment across all energy sources, will be enough to meet future demand?

(3) The three regions that will influence global energy trends are – Asia, Africa and South America. I believe they warrant greater attention. The IEF could facilitate regional workshops, possibly at Ministerial level, to discuss in greater depth the prospects and priorities for each of these regions. They already do so for Asia, they should consider expanding this to South America and Africa.

(4) Gas is expanding its share of energy use and will be of increasing importance, both for energy security and climate change. Have we thought enough about what sort of market will develop, how prices will be determined in the future and what all this means for our energy security and climate mitigation policies.

(5) A further issue is the changing global energy market with an increasing share of the market being taken by the new emerging economies. What will this mean for trade flows, availability of resources, and the need to build capacity and expertise in energy technologies in these countries. Moreover what does it mean for international energy governance more generally, so that the voice of these new market participants are heard on an equal basis.

## **Setting the agenda for Phase 2**

To help understand the difficulties associated with each of these challenges and to find the solutions we need to increase and enhance dialogue, between producers and consumers and between Governments and industry.

I believe that an enlarged set of new priorities should be brought together under a four year strategic plan built around the priority subjects Ministers want to discuss, with a more detailed two year work programme setting out the outcomes that need to be ready for the next Ministerial in 2014.

A key component of the plan should be the development of a high quality data and analytical framework. This will enhance the dialogue. It should consist of a more detailed shared programme of data collection, analysis and research – involving Governments, industry, and universities/research institutions. With views, and input from others, the IEF should work with other international organisations to build a programme to improve data availability and fill gaps in analysis.

The strategic plan should be developed through a wide-ranging consultation process with input from member countries, industry and research bodies. But ultimately it will be for Members to decide on priorities.

An expanded programme of work will need resourcing and all options for additional finance should be explored. Some Governments may be prepared to

finance specific pieces of work to which they attach particular importance through voluntary contributions. Some companies may also want to contribute to specific areas on a voluntary basis. And Research Institutes may have access to funding for certain types of projects. All options warrant further investigation.

### **Cooperation is essential**

To put such a plan together the IEF, with its wide membership, is in a unique position to co-ordinate co-operation between international energy organisations to ensure we pool, and don't duplicate, our resources. So the IEF, IEA and OPEC need to continue to collaborate closely, bringing in others as necessary.

I am sure that energy will remain high on the political agenda in all our countries, with discussion in a number of different fora. A well co-ordinated work programme, to develop the analytical framework, will also be a valuable resource which the G8, G20 or wider bodies with an interest in energy can use.

Industry is at the centre of everything we do, and has a great deal of expertise, they should participate strongly and be more integrated into the process.

Many of the issues we are dealing with are complex and good analysis can aid debate. A research network of institutions could be established to support the analytical work and provide greater in-depth insight on the more complicated issues.

The Secretariat could start this process by drafting a new "Programme of Co-operation" that would be discussed with members, other international organisations and industry –agreed within 6 months and progress reported to the next Ministerial in 2014.

### **Summary**

The appointment of a new Secretary General, Aldo Flores, provides an opportunity for the IEF to continue its evolution into the next stage of its development. Much progress has been made in what I have called Phase 1. But there is still much to do and it is time to move onto Phase 2.

This does not mean the character of the dialogue process needs to change. It should continue as now – informal, wide-ranging and reflecting topical issues. But, as envisaged in the new Charter, the dialogue can be enhanced through greater ambition with a bigger programme of work, based on a new strategic plan. This would be under-pinned by a high quality data and analytical framework, co-ordinated across the international organisations and supported

through strong cooperation with member countries, industry and research institutions.

For a new strategic plan to be successful IT NEEDS YOUR INPUT TO SET YOUR PRIORITIES.

**Graham White**

**4 March 2012**