

“Dialogue for Global Energy Security”

The Role of the IEF

delivered at the Center for Strategic and International Studies

By

by Ambassador Arne Walther
Secretary General, International Energy Forum

November 7, 2007

Energy and environment is centre-beam in the international political spotlight of our day. Energy security continues to top the political agenda for energy importing as well as exporting countries, for industrialized as well as developing economies. We are all “addicted” to energy. Because each and every country needs energy to reach its economic and social objectives. Energy also affects commercial and political relations between countries. It fuels the world economy. Production and consumption of energy impact the global environment. Energy influences, and is influenced by, international politics. Energy is a challenge for the industry set to harness it. And a challenge for the national and international leadership that would govern it. Energy goes to the very core of political, economic and environmental interests of individual countries as well as of the global community. It is difficult to imagine an area, where nations are more interdependent than in the confluence of energy, environment and economic development.

Preparations are well under way for the 11th International Energy Forum Ministerial and 3rd International Energy Business Forum that Italy will host in Rome on 20 to 22 April 2008, assisted by co-hosts India and Mexico as well as the IEF Secretariat. The Rome Ministerial offers a timely, global opportunity to address current energy concerns. The increasing awareness of shared vulnerabilities and common interests developed through producer-consumer dialogue gives stimulus to frank discussion also of issues where consensus agreement may now be lacking, where new understandings can be developed and where concerted policy action can contribute to our common global energy security.

I am honoured to have this opportunity to highlight, against the backdrop of current heightened energy consciousness, the importance of deepened global dialogue in addressing energy uncertainties and the importance of synchronized efforts for national and global energy security. I will recall the emergence and development of the political level dialogue in IEF as a vehicle to this end. The IEF has contributed to bringing producer-consumer relations out of an era of confrontation. It will continue as a venue for converging outlooks towards equitable and win-win co-operation for global energy security.

Heightened energy consciousness

Looking ahead, producer-consumer dialogue and relations will evolve against a complex backdrop, some features of which are that:

- Fossil fuels remain paramount for quite some time with increasing attention to development of alternatives.
- Increasing energy demand and efficiency,
- Increasing energy trade due to the geographical mismatch between centres of oil and gas production and centres of consumption.
- Increasing competition for energy resources and among energy resources.
- A new set of relationships between national and international oil companies.
- Resource nationalism. Governments wanting to make the most of their national endowment.
- Policies of energy interdependence or energy independence for energy security?
- Growing environmental and climate change concern, not least in public opinion.
- Increasing need for environmentally benign and cost-efficient technology.
- Vulnerability of energy production and supply to politically motivated disruption, terrorist attack, technical mishap and forces of nature.
- Call for good governance and transparency. People expect their Governments to provide sufficient, reliable and affordable energy.
- Energy poverty. Demands for equitable access to energy for the quarter of the world's population who do not have it, but who want it for a better life tomorrow.
- The shift to Asia of global economic gravity with geopolitical and energy implications.
- Increasing awareness of long-term communality of interests among producers and consumers in a globalizing world.

Spotlight on energy

With international spotlight on energy, questions are being asked. Are there energy resources enough? Will the investments needed to develop these resources be made in time? Will energy be accessible and affordable on an equitable global basis, or only for the privileged few? Will there be conflict and scramble for resources adversely affecting sustainable global developments? What about the environment and climate change? Will we see new patterns of energy co-operation shaping new geo-political realities? Or, will established geo-political realities be a stumbling block for wise and sustainable patterns of energy co-operation?

Energy and environmental uncertainties are prompting countries and groups of countries to re-think fundamental policies. "Diversity" is widely seen as key to policies for energy security. Diversity of suppliers and in energy-mix for the consumers. Diversity of markets for the producers. But the policy tuning of one country to meet new challenges and to reduce its particular energy uncertainties can also exacerbate uncertainties or create new ones for others.

Amid the uncertainties, there is a fundamental certainty. The world will need more and cleaner energy, used in a more efficient way, accessible and affordable to a larger share of the world's population. The political challenge lies in operationalizing this energy imperative in a fair and sustainable way. Through national policies as well as in bilateral, regional and wider global co-operation.

The shorter-term perspective is challenging. The longer-term one is even more daunting. The increase in global energy demand foreseen in the years ahead is substantial. Most of this increase will come in the developing countries as they industrialize and their economies grow. Patterns of energy production and consumption, the energy mix as well as investment

requirements will evolve in a changing geopolitical environment. And these energy developments will influence that changing geopolitical climate.

Global focal point

The global producer-consumer dialogue in the IEF acquires increasing importance as nations revisit and modify established policies, and shape new ones, in their quest for energy security. The global dialogue on energy in the IEF transcends traditional political, economic and energy policy dividing lines. It gathers under one global political umbrella Ministers not only of the petroleum exporting countries of OPEC and Ministers of the industrialized, energy importing countries of the OECD/IEA. It also gathers Ministers of countries outside these organizations, such as Russia, China, India, Brazil, South Africa and others, that will have increasing impact on the global scenario.

Producer-consumer dialogue has played its part in ushering international energy affairs out of an era of mistrust and confrontation into one of greater understanding, better awareness of long-term common interests and convergence of views and outlooks. The knowledge basis for national decision-making and for purposeful co-ordination of policies within other international organizations is better than before. Results can be seen in concrete measures taken by both consumer and producer countries individually and by their organizations. The results of dialogue are also evident in statements of policy intent that in times of geopolitical and other uncertainty send calming signals to nervous energy markets.

The IEF can increasingly serve as a global focal point for the wider Global Energy Policy Interrelationship of co-operative contacts among governments at political and officials' level and on bilateral, regional, inter-regional and global basis. Not only governments, but also oil companies, the broader energy industry, financial institutions, international organizations and other stakeholders have their integrated role to play in a widened co-operative interrelationship.

The case for dialogue

The importance of energy dialogue and the role of the International Energy Forum as a co-operative mechanism are enjoying increasing international recognition by Ministers individually and by regional and global energy organizations. Not least the G8 Heads of Government at their Summits in Gleneagles in 2005 under the Presidency of the United Kingdom and in St. Petersburg in July 2006 under the Presidency of the Russian Federation have encouraged IEF ambition. At the very top of their St. Petersburg Plan of Action on Global Energy Security, the G8 Heads of Government underscored the importance of energy dialogue and invited the IEF to study ways of broadening the dialogue between energy producing and energy consuming countries on increasing transparency, predictability and stability of global energy markets. Including information exchange on medium- and long-term policy plans and programmes.

The IEF has found its place in the family of energy organizations. Yet, for many years, it was politically simply not "on" for energy ministers of consuming and producing countries to meet in a multilateral context. The strategic commodity oil and market volatility could create conflict or exacerbate political tensions between countries or groups of countries. The oil crisis of 1973-74 in the wake of Middle East war, and the use of oil as a political weapon, had pitted petroleum producing and consuming countries antagonistically against each other.

OPEC and the IEA emerged as the bi-polar and multilateral expression of conflicting producer-consumer interests.

While co-operative relations could develop on a bilateral basis oil producing and consuming countries, multilateral approaches to build bridges and establish a structured producer-consumer dialogue and co-operation foundered in the Conference on International Economic Co-operation (CIEC) in Paris and again in United Nations Conference on Trade and Development (UNCTAD) in second half of the 1970s.

New co-operative mantra

It became increasingly clear, however, that sharply fluctuating oil prices were detrimental to both producers and consumers and that there could be no long-term winners in troubled energy markets. Less volatility in energy markets and stable prices at a reasonable level for consumers and producers emerged as a shared ambition and new co-operative mantra.

The World Commission on Environment and Development acknowledged in its report “Our Common Future” in 1987 the importance of energy for sustainable economic and social development. It recommended that new mechanisms for encouraging dialogue between consumers and producers be explored.

On that note the Chairperson of the Commission and Prime Minister of Norway, Dr. Brundtland, called at the World Economic Forum in Davos in 1989 for an informal “Workshop of Ministers” of energy producing and consuming countries to discuss the resource and market situation and outlook as well as the links between energy and environment. Many were ready to try, but some important industrialized countries regarded the very idea of a dialogue on these matters at political level as a non-starter, even as outright dangerous, if not also illegal. Some seemed to regard the differences and conflicts between producers and consumers as permanent facts of life, a divide that no political level dialogue could bridge, or should even attempt to bridge. One just had to live with sharply fluctuating oil prices, instability and mutual insecurity, and the adverse wider economic and political impact.

Globetrotting Trek

The Gulf War in 1990-91 highlighted again the geo-political and economic importance of oil. A more co-operative atmosphere between producers and consumers ensued in its wake. At the initiative of Presidents Mitterrand of France and Perez of Venezuela, a “Ministerial Seminar” of Producers and Consumers was held in Paris in 1991 breaking the political ice.

It was followed by an informal “Ministerial Workshop” in Norway in 1992 that broadened the dialogue from the traditional bi-polar IEA-OPEC configuration to focus also the energy powerhouse Russia. Both Ministers of Foreign Affairs and Energy Ministers took part highlighting also the wider economic and geo-political importance of energy developments.

The process of IEF Ministerials then moved to Spain in 1994, it crossed the Atlantic to Venezuela in 1995 before moving outside IEA and OPEC territorial domain to India in 1996, acknowledging also the importance of Asia and growing energy needs of the emerging economies as integral dimensions of the global energy policy interrelationship.

Ministerials followed in South Africa in 1998 and Riyadh in 2000, where the King Abdullah of Saudi Arabia, then Crown Prince, proposed the establishment of a permanent Secretariat and offered to host it in Riyadh. The IEF Ministerial in Japan in 2002 endorsed the establishment of a permanent Secretariat in Riyadh and its supportive mission.

The new Secretariat presented itself at the 9th IEF in the Netherlands in 2004, where a new dimension was brought to the biennial ministerial. The 1st International Energy Business Forum was convened for direct interaction between CEOs of leading energy companies and IEF Ministers.

Qatar hosted the 10th IEF Ministerial and 2nd International Energy Business Forum in April last year, when Ministers coined energy security as a “shared responsibility” highlighting both sides of the energy security coin: security of demand for energy-exporting countries and security of supply for energy importing countries.

Shared responsibility

Ministers noted that world economic growth had remained strong despite increasing oil prices and market volatility, but expressed concern over effects of sustained high price levels on the world economy, and especially on developing countries. They confirmed their shared interest in reduced market volatility and prices at reasonable levels for both consumers and producers. They attributed higher oil prices to a number of factors, including increasing demand, tight up- and down-stream capacities, intervention of non-industrial actors and geopolitical developments, which contributed to increased anxiety in the market.

Ministers underlined the importance of strengthening dialogue and co-operation not only between governments, but also between governments and industry with a view ensuring reliability, security and affordability of energy. They called for a stepping up of investments across the energy chain to meet the substantial increase in demand required for global economic growth and social development in the years ahead.

Ministers urged accelerated development of cleaner fossil fuel technologies along with alternative sources of energy and increased energy efficiency in a world that would continue to rely strongly on its ample supplies of fossil fuels, oil, natural gas and coal. They underscored that improved access to markets, resources, technology and financial services, bolstered by fair and transparent economic fiscal and legal regulatory frameworks, and by good governance, are crucial for the long-term energy security of both consumers and producers. They also acknowledged the need to do something about the shortage of skilled human resources throughout the industry.

A unique process

The IEF has developed from an informal Ministerial Seminar to become the largest recurring global gathering of energy ministers. Unique not only in its global perspective and scope, but also in its approach. It is not a decision-making organization or a forum for negotiation of legally binding settlements and collective action. Nor is the IEF a body for multilateral fixing of prices and production levels. In addition to frank and consensus-seeking informal plenary discussions, the IEF Ministerials are an important venue also for myriad bilateral and other contacts between ministers. The mission of the IEF Secretariat is to enhance and provide continuity to the political level dialogue in the IEF focusing on three pillars of activity.

The first and core pillar is to support host country and co-hosting countries in preparing, implementing and following up the biennial Ministerials. The second to facilitate and enhance the exchange of energy data and information, especially by co-ordinating the Joint Oil Data Initiative. The third pillar is to provide additional platforms for exchange of views on relevant energy issues in support of and deepening of the Ministerial level dialogue in the IEF.

Flagship Activity

The Joint Oil Data Initiative is a concrete outcome of the producer-consumer dialogue. Co-ordination of this unique inter-organizational transparency initiative is a flagship Secretariat activity. With the active participation and full support of our partner organizations; the Asia Pacific Economic Co-operation (APEC), European Communities, International Energy Agency (IEA), the Latin-American Organization for Energy Co-operation (OLADE), Organization of Petroleum-Exporting Countries (OPEC) and the United Nations.

Our partner organizations joined hands to set up the Joint Oil Data Exercise in 2001 following the call by Ministers at the 7th IEF in 2000 to do something about the lack of data transparency seen to cause excessive oil price fluctuations. They established the Joint Oil Data Initiative as a permanent mechanism in 2003. Following the endorsement by IEF Ministers, the IEF Secretariat assumed the co-ordination of JODI in 2005 and manages the JODI World Database with the objective of improving the quality and transparency of international oil statistics.

More than 90 countries, representing 90% of global supply and demand, are now submitting data to JODI through our partner organizations. The data cover production, demand and stocks of seven product categories: crude oil, LPG, gasoline, kerosene, diesel oil, fuel oil and total oil. JODI is promising work in progress with great potential.

IEF Ministers underline the importance of transparency and exchange of data for market predictability and for the investments required to enhance energy security. They envisage in due course being expanded to include also other sources of energy that are important in the world energy mix. The IEF Secretariat will present to the 11th IEF a feasibility study on the potential expansion of JODI to include natural gas.

The importance of the better data through JODI for energy security was forcefully echoed by the G8 Heads of Government in their St. Petersburg Plan of Action on Global Energy Security. They pledged to take further action to improve and enhance the collection and reporting of market data on oil and other energy sources by all countries including through development of a global standard for reporting reserves. The G8 Heads of Government invited the IEF to work on the expansion of JODI membership and to continue to improve the quality and timeliness of data. High-level political support to JODI has been expressed also by APEC Summits and meetings of energy Ministers.

JODI is international ambition translated into action. For its success, we rely on the political support of participating countries and their submission of timely and accurate data.

Energy security and interdependence

Energy security is the core objective of the political level dialogue in the IEF. While energy goes to the very core of national interests, it is also a global issue in an increasingly interdependent world. An energy world that is becoming increasingly multi-polar.

Deliberations in the IEF have shown how truly multi-dimensional the challenge of global energy security is. There is no quick and lasting fix. For nations to talk about energy security at political level, bilaterally, regionally and globally is good. But actually doing something about it is better and requires dialogue and partnerships also among governments and industry.

Some argue that dependency on others in so important and strategic an area as energy constitutes a political and economic risk that should be reduced to a minimum, if it cannot be avoided altogether. Others argue that energy dependency is not only practical and inevitable in a globalizing world, but that it ties countries closer together also economically and can improve the overall geo-political climate.

Energy interdependence can be good. But energy interdependence can also be bad. For it to be good and sustainable, it has to be mutually beneficial. The political level dialogue in the IEF highlights both sides of the energy security coin. Security of supply and security of demand. For both consumers and producers this implies dependency on the other. Ministers of some energy-importing countries are requesting a “road map” from energy-exporting countries on future supply. And Ministers of some energy-exporting countries likewise requesting a “road map” on future demand from the energy-importing countries.

Energy security is more than an issue of technical arrangements and infrastructure. It has also to do with economics, geopolitics and the environment. It has domestic and foreign policy implications. The quest for sustainable global energy security is now being highlighted not only by Energy Ministers. Heads of Government, Ministers of Foreign Affairs, Finance, Economy, Trade, Environment and Development are adding their voices as well. As are non-governmental organizations and other stakeholders. More and more people are joining the energy dialogue and often for very different reasons. And core to all this is the energy industry itself, doing the actual work - finding, producing and bringing much energy to the consumer.

Global Energy Policy Interrelationship

Energy security in its more holistic, global and long-term perspective was the focus theme of the UN Commission on Sustainable Development in 2006 and 2007 underscoring the importance of energy in meeting the Millennium Development Goals. The Secretariat brought IEF perspectives to the Commission’s concluding Ministerial session in May, where the efforts of Ministers to finalize a consensus document failed, testifying to the political, economic and environmental complexity of energy issues.

As global focus now is being put on issues of energy security, regional and inter-regional energy co-operation is also being strengthened in a multi-polar world. This gives impetus to the Global Energy Policy Interrelationship. Parallel processes of global and regional co-operation can strengthen energy security in a multi-polar energy world. Regional and interregional co-operation can provide stepping-stones to global approaches and co-operation. And should not go off in different, globally disruptive and conflicting directions. The biennial

IEF Ministerials acquire added importance as a global meeting point for the mosaic of regional and inter-regional energy ambition and co-operative designs.

New Asian Energy Identity

Energy co-operation in the wider Asia is taking new form and deserves special mention in light of its potential. Recognizing the global impact of energy developments in Asia, the Secretariat is facilitating the process of Roundtables of Asian Energy Ministers initiated by India in January 2005. Ministers of the principal Asian importers and West Asian (Gulf) producers, representing half of the World's population, the bulk of the World's remaining proven oil and gas reserves and, very importantly, the greater part of the surging global energy demand expected in the decades ahead are now interacting on broad regional Asian basis issues addressing energy security, stability and sustainability.

The Secretariat assisted the further development of this new Asian Energy Identity at the Second Asian Ministerial Energy Roundtable that Saudi Arabia hosted and Japan co-hosted in May 2007. This Asian process that will continue with a 3rd Roundtable of Asian Energy Ministers umbrella the IEF umbrella that Japan will host in 2009 facilitated by the IEF Secretariat and with Qatar as co-host. Kuwait will subsequently host the 4th Asian Ministerial Roundtable. Korea will host the 5th Roundtable.

Asian Ministers have recognized very importantly in this process of regional Roundtables that the Asian oil economy is integral to, and inseparable from, the global oil economy. They are calling for greater co-ordination among Asian energy exporters and importers within bilateral, regional and global contexts, underscoring not least the need for cross-national investments. Their Asian perspectives will be increasingly brought to bear in the deepening global dialogue in the IEF.

The Road to Rome

The 11th IEF Ministerial in Rome in April offers a new global opportunity for Ministers to address the energy resource challenge. They will update their outlooks with regard to supply and demand, as well as market conditions, with a view to finding ways to remove bottlenecks to energy security and to enhance market stability. They can further discuss how to promote the substantial energy investments where and when needed.

Ministers can seek to identify policies towards a sustainable energy future addressing issues such as environmental and climate change concern, better access to energy for developing countries, the importance of developing cleaner fossil fuel technologies as well as alternative sources of energy.

Ministers will interact with CEOs of leading national and international energy companies in the 3rd International Energy Business Forum preceding their internal discussions. They recognize that the involvement of industry itself and attention to the hurdles that companies face are key to their political efforts to promote energy security. Not least considering the substantial investments that industry will be required to make and the new and more efficient technology that industry must develop, if we are to meet the energy demands of the future in an efficient and sustainable way.

They can again underscore importance of level playing fields and fair regulatory frameworks, improved transparency and better data for market stability and energy security. And emphasize their commitment to further develop the Joint Oil Data Initiative and expand its scope to natural gas and other sources of energy.

... and beyond

If “All roads lead to Rome”, the road of energy dialogue does not end there. It continues beyond. Neither energy nor dialogue are goals in themselves. But means to promote sustainable economic and social development in a way that also strengthens relations among countries in the wider political perspective. The dialogue in International Energy Forum is above all a global confidence-building process among Ministers of energy producing and consuming countries, industrialized and developing countries, across traditional political, economic and energy policy dividing lines. A dialogue in which Ministers focus on energy security and address the links between energy, environment and economic development. A dialogue through which Ministers can promote their national interests in the wider context of promoting common global objectives as well.

In that perspective, there can no final destination, there will always be new horizons, for a purposeful producer-consumer dialogue in an evolving energy world. It is ultimately the ambition of participating governments, and the sum of their policy measures, that will determine its achievements and success.

Given the strategic importance of energy to each and every country, I do not see the establishment in any near future of a global energy organization, where national decision-making would be relinquished and replaced by binding global energy governance. But through the myriad of established and future new partnerships between governments and between governments and industry, I do see the producer-consumer dialogue in the IEF as a vehicle to develop a Global Code of Energy Conduct. A Code of Conduct that is advantageous for all to follow. And from which to deviate in pursuit of short-term advantage at the expense of others, would be tantamount to shooting oneself in the foot, at the very least.