

The IEF 3.0

Making good on the promise of global energy security through the producer-consumer dialogue

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I. The challenge of energy interdependence and the global energy dialogue

As the International Energy Forum (IEF) enters its third decade, its value as neutral facilitator of the global energy dialogue will continue to rise. For the world of energy is one of interdependence, and the multiple links connecting producers to consumers,¹ at every stage of the international energy supply chain, will in all likelihood deepen and expand. In every market for every energy source, from oil to wind, from gas exploration to power generation, passing through the myriad processes involved in the design, transportation, distribution, and delivery of energy products and services, consumer and producer countries will be called to adapt to an increasingly complex environment. It will make little difference whether they are developed or less developed, industrialized or agricultural, resource abundant or scarce. Their fortunes will be intertwined. Their ability to understand their interdependence, as much as their willingness to work together to overcome their joint challenges, will be fundamental to the promotion of their energy security.

This will be true even if market forces play the main role of adapting them to this new reality, sending signals for resource allocation, motivating the development of financial instruments to cover for price fluctuations. Markets do mediate between the interests of consumers and producers, but not all countries will be able to respond fast and effectively to sudden disruptions of supply or demand, even if they count with more flexible energy sectors. And setting policies to “get the prices right”, creating novel regulations, or reforming the institutions that govern their national energy systems, will not be enough. The reason is straightforward: the greater complexity that comes with greater interdependence has added a layer of uncertainty to the behavior of energy markets. As a result, it has become more difficult to interpret the messages conveyed by price movements and, by extension, to negotiate, plan, and execute strategies to satisfy national energy needs.

For instance, it remains unsettled whether financial or real factors account for the quite pronounced oil price volatility of 2008-2009. There is a fairly broad agreement that financial markets played a role in the formation of oil prices, but some have found it to be minimal, others observe that it was not so small and justified by expectations of a tight balance between supply and demand, and yet others see it as large and plainly speculative. So oil market participants were unable to converge on a single diagnosis of the situation, because they did not have access to the same data or shared the same model of how the market works.

¹ Throughout the text, references to producers and consumers include as well “transit” countries, which besides being net importers or exporters of energy, are geographically located at key transportation and logistic points of the world energy trade.

Supplementary mechanisms are thus required to increase the signal to-noise-ratio of energy prices and other energy market indicators, so they perform appropriately their function of guiding resource allocation. Improving data quality on production, consumption, policies, and investment plans, among others, is a must, as it is to increase its availability. Better communication between key market players, to understand each other's concerns and motives, is also necessary to sustain market transactions over time. Markets cease to work well when this type of information is scarce and trust is low.

The IEF is uniquely positioned to make a difference in these areas because it can facilitate a closer engagement of producers and consumers to: (1) reduce asymmetries in information and understanding, (2) create a sense of shared goals and concerns, (3) temper overwrought or unfounded expectations about supply and demand conditions, (4) forestall the rise of tensions that come from sudden market disruptions or misperceived intentions, and (5) open new opportunities for global energy cooperation.

II. The IEF: a strategic partner in the search for global energy security

The informal producer-consumer workshops and seminars of the 1990s -the "beta" version of the IEF, or the IEF 1.0- focused mainly on creating an environment for the ministerial dialogue itself to occur. At a time when relations between producers and consumers were uneasy, owing to the geopolitical risks and price gyrations associated with the Gulf War and the Asian financial crisis, a major success was indeed to bring into the same room ministers that otherwise would have preferred not to engage with each other, or to do so differently.

During the following decade, the IEF 2.0 was born as an outcome of the work of its members to strengthen its institutional structure and its capacity to contribute in increasing the transparency of the oil market. They established its Secretariat with a permanent home in Riyadh, while setting in motion the Joint Oil Data Initiative (JODI, now known as the Joint Organizations Data Initiative), to provide reliable monthly data on global oil production and consumption.

The IEF 3.0 was launched in February 2011 with the signing of the new IEF Charter at the Riyadh Extraordinary Ministerial Meeting. Supported by the considerable political capital invested by 86 ministers and heads of delegation present at the signing ceremony, the Charter reflects the mandate of the 2010 Cancun Ministerial Declaration to strengthen the IEF's architecture and capabilities, including the possibility of holding Extraordinary Ministerial meetings, should market conditions advise it.

Standing on this platform, which endows it with political legitimacy and a sound institutional structure, the IEF 3.0 must raise the bar of its own expectations to consolidate its position as a strategic partner in the search for global energy security. It must facilitate and promote a high-quality, results-oriented, and policy-relevant international energy dialogue, making the best of its two main comparative advantages: (1) the provision of a framework for a constructive dialogue between the top energy decision-makers of the world, and (2) the

integration and dissemination of information with the largest geographical coverage on energy production and consumption.

These advantages are specific to the IEF because of its neutrality and diverse membership, which includes the largest set of countries from every continent and represents more than 90% of the international energy market. As such, it can sustain a process of dialogue that stands for the wide variety of views that prevail around the world on energy matters.

Vested with these strengths, the IEF must be a catalyst for a dialogue that truly reflects on the most salient issues and concerns associated with global energy security. This requires the IEF to act decisively in five key areas:

Table 1. The IEF: Key areas and activities to accomplish its mandate

Areas	Activities
<p>1. Ministerial dialogue and subsidiary ventures for information sharing, exchange of views, and trust building</p>	<ol style="list-style-type: none"> 1. Identify and monitor, in close coordination with member countries, the Executive Board, the International Support Group (ISG), and the Industry Advisory Committee (IAC), issues that are more likely to affect energy markets and prompt national concerns, in order to set an agenda for the biannual ministerial dialogue. 2. Promote a greater awareness of both energy interdependence and its determinants, from which the recognition of shared concerns originates and the joint search for solutions begins. 3. Design novel formats for the dialogue, to sustain its effectiveness as its membership expands. 4. Continue to organize seminars, workshops, roundtables and other events that build toward, and put into practice, the recommendations stemming from Ministerial meetings. 5. Enhance the quality of the conversation between ministers and the CEOs of international and national energy companies, under the framework of the International Energy Business Forum (IEBF). 6. Stand ready to call or assist in the organization of Extraordinary Ministerial Meetings, should market conditions require it. 7. Benchmark the direction of the energy dialogue –its components and focus- with respect to similar mechanisms in other fields, to insure its quality.
<p>2. Transparency and knowledge management</p>	<ol style="list-style-type: none"> 8. Improve JODI to increase the transparency of oil and gas markets, through the timely and complete reporting of information required to support a facts-based dialogue and sound decision making. 9. Position JODI as a major source of trustworthy information, on a similar footing as older, well-established and respected sources of energy statistics. 10. Provide training and capacity building to JODI contributors. 11. Monitor and provide useful information on global energy market developments, such as the investment plans of NOCs and IOCs or the energy strategies of its members, to aid in the understanding of market trends. 12. Create, where appropriate, knowledge management platforms that help users and providers of data, under the JODI framework, to have access to systematic information in a flexible format.
<p>3. International cooperation</p>	<ol style="list-style-type: none"> 13. Collaborate closely with the IEA, OPEC, and other international and regional energy organizations, in the preparation of joint seminars and events that promote a better understanding of energy market behavior. 14. Reinforce its position as a primary point of contact or reference for the G20, which is already devoting more attention to energy developments.

	15. Coordinate the elaboration of studies, background papers, and other documents that add value to the understanding of global energy challenges, as identified in Ministerial Meetings or by the Executive Board.
4. Outreach, networking, communications, and development	16. Cultivate close relations with research centers, think tanks, universities, mass media outlets, and even social networks, to foster a better understanding of the dialogue and its contribution in promoting global energy security. 17. Continue improving the Secretariat’s web portal and develop virtual networks to support issue-specific discussions. 18. Sustain funding efforts to expand and complement member country contributions, without compromising the Secretariat’s neutrality and integrity.
5. Strategic management	19. Streamline procedures to comply speedily with the provisions of the new Charter and facilitate the work of the expanded Executive Board. 20. Benchmark the performance of the IEF with respect to other international arrangements with similar objectives. 21. Ensure an efficient management of the Secretariat’s resources, outsourcing processes where it helps to save costs and improve the quality of services provided. 22. Emphasize the sound development of the Secretariat’s human capital and knowledge base.

The IEF has already made significant strides in these areas, but much remains to be done. Its Secretariat must advance further, remaining alert to developments in energy markets to better accomplish its mission.

III. The road ahead: substance and priorities

The above-mentioned activities make sense provided one key element is taken care of: the substance, or content, of the ministerial dialogue itself. This is why the consultation of the Executive Board with the ISG and the IAC is so important to identify important issues and set the priorities for both the Ministerial dialogue and the business forum. It underscores as well the pertinence of reaching beyond traditional sources of information and opinion, adding research centers or think tanks, to consider other topics that might be of concern for the energy dialogue.

Taking into account past Ministerial Meetings and current events in energy markets, it is reasonable to expect a number of issues to remain high in the list of priorities for the international energy dialogue:

Table 2. Issues likely to remain in the Ministerial dialogue agenda in the foreseeable future

Issue area	Topic
1.Oil and gas markets	1. Oil price volatility and its drivers. 2. Determinants of the security of energy demand and supply. 3. The growing energy demand of emerging economies and its effect on current and future investments. 4. The role of transit countries in promoting a smooth energy trade. 5. The global integration of the natural gas market and the impact of new resources, such as shale gas, on its behavior. 6. Prospects and benefits of a closer cooperation between national and international oil companies.

2. Renewable sources of energy	7. The incorporation of renewable sources into the global energy mix, together with their effect on planning and execution of investments in fossil fuels.
3. Energy efficiency	8. Energy efficiency goals and their implications for energy consumption and investments in fossil fuels.
4. Energy poverty	9. Universal access to modern energy services, especially for the 1.4 billion of humans without them. 10. Transfer of technologies and funding to help countries eradicate energy poverty.
5. Technological innovation and human capital development	11. Research, development, and innovation of technologies to tap into harder-to-reach oil and gas reserves and garner the potential of renewable sources of energy. 12. Capacity building and training throughout the complete energy supply chain.
6. Environmental sustainability	13. Energy use and climate change. 14. Environmentally friendly production, delivery, and use of energy products and services. 15. Carbon pricing and its effect on the development of clean-energy technologies.
7. Industrial safety and security of critical infrastructure	16. Safety and security in the production of energy services and products, to avoid environmental disasters or endangering experts and technicians working in the field. 17. Promotion of policies to guarantee the security of infrastructure and transportation routes critical to energy production and trade.

The list illustrates the nature of the energy challenges ahead, which merit a closer examination, albeit at different levels, from the IEF governing bodies. It also hints at the interrelations between consumers and producers of knowledge, information, inputs, outputs, intermediate goods, and final goods whose fortunes are linked throughout the energy supply chain.

IV. Making good on the promise of the global energy dialogue

If there is a single promise the IEF embodies, it is that global energy security can be enhanced with the support of “a neutral facilitator of an informal, open, informed, and continuing global dialogue among its membership of energy producing and energy consuming States, including transit States.” It is a promise that deserves to be taken seriously, as it is through dialogue that trust is built. And it is with trust that cooperative bonds between nations can be created and sustained.

In a world where the distribution of energy sources is uneven and unforeseen events disrupt energy markets repeatedly, countries must count with a dialogue platform that helps them achieve a clear sense of their interdependence. Only then can they appreciate the degree to which their energy security follows from their own choices as much as those of others. This is a prerequisite for any cooperative solution to their shared energy challenges. A judicious mix of markets, States and international dialogue will go a long way in helping governments provide the energy their peoples want: accessible, affordable, reliable, flexible, environmentally-friendly. The IEF can be their strategic partner and ally as they seek to satisfy this need.

The world of energy, *our* world, would not be better without this option.