A Japanese Perspective on the International Energy Landscape (20)

--

Dialogue between Oil Producing and Consuming Countries, and IEA-OPEC-IEF Cooperation

Ken Koyama, PhD
Director
Strategy and Industry Research Unit
Institute of Energy Economics, Japan

On November 22 to 23, I had an opportunity to participate in an international conference in London. Topics for discussions at the conference included background factors behind crude oil price fluctuations, oil price formation problems for spot, futures and over-the-counter markets, and appropriate market designs and regulations. I would like to introduce an outline and key points of the conference in a separate report. Here, I build on the conference to discuss the importance of dialogue between oil producing and consuming countries. This is because the conference was uniquely cosponsored by the International Energy Agency, the International Energy Forum and the Organization of Petroleum Exporting Countries.

It may be needless to say that the IEA is an international organization representing oil (energy) consuming industrial countries while OPEC is a group of major oil producing countries including Saudi Arabia. In this sense, the two international organizations respectively represent oil consuming and producing countries. The IEF is an international organization whose permanent secretariat was established in 2005 after the first international economic forum took place in 1991 to promote dialogue between oil producing and consuming countries. In this way, we can interpret the conference as a gathering of the three international organizations as key players in international energy markets to discuss oil price formation problems for the purpose of stabilizing markets through dialogue.

The benchmark crude oil futures price rose close to $150/barrels in 2008 before plunging below $40/barrel on an economic crisis and rising back above $80/barrel. Amid wild oil price fluctuations over the recent few years, the stabilization of the international oil market has been a key challenge for the entire world. In this sense, we can say that such important dialogue between oil producing and consuming countries should have taken place earlier. In fact, there were some leaders who grew conscious of the importance of such dialogue amid the rapid spikes (or wild fluctuations) of oil prices. In a typical development, Saudi Arabian King Abdullah called a meeting in Jeddah of leaders from major oil producing and consuming countries in June 2008 when the benchmark crude oil futures price topped $100/barrel and was about to rise further. But the meeting fell short of leading to an official dialogue between the IEA and OPEC as the international organizations that symbolically represent oil consuming and producing countries. In fact, the IEA and OPEC had cosponsored some international conferences, including a 2006 Oslo meeting and a 2007 Bali gathering. I attended these meetings and felt that it was
significant for the key players in international energy markets to frankly exchange opinions at an official forum.

Later, however, moves to arrange official direct talks between the IEA and OPEC stagnated. This may be because there were basic conflicts of interest between the representatives of oil consuming and producing countries and because they had different stances and views amid oil price spikes. Particularly, their wide differences surfaced over price formation problems (reasons for oil price spikes) and how to respond to price spikes. OPEC asserted that major factors behind oil price spikes were not supply/demand fundamentals but financial factors that grew more influential in recent years. OPEC has conducted a joint study with the European Union to back up the assertion since around 2006. The IEA for its part maintained its attitude of emphasizing supply/demand fundamentals as basic pricing factors and relatively refrained from giving weight to financial factors. The IEA sponsored international workshops on the matter in New York in 2004, in Paris in 2008 and in Tokyo in 2010 to accumulate discussions among experts. I feel that the IEA has given growing priority to financial factors through these workshops.

Nevertheless, the IEA and OPEC might have growingly felt that theological arguments about whether to attribute oil price spikes to supply/demand fundamentals or financial factors would not lead to any constructive resolution of problems. Even amid such feeling, they might have begun to give priority to the need for their frank exchange of views despite their different thoughts and opinions about the matter. Such development might have existed behind the London international conference.

The role of the IEF is also important. As noted above, the IEF’s most important mission is to promote dialogue between oil producing and consuming countries as indicated by the objective of its establishment. It is very important for the IEF to acknowledge differences between the IEA and OPEC and serve as a mediator to arrange opportunities for their frank exchanges of opinions. One background factor behind the London conference might have been that the IEF and its secretariat have attempted to enhance the IEF’s presence and raison d’etre as an international organization by successfully promoting dialogue in the meeting. The conference emerged directly from an official agreement at a meeting of IEF energy ministers in Cancun in March 2010. In this sense, the successful arrangement of the London conference was the IEF’s most important immediate mission. The IEF secretariat may mediate talks between the IEA and OPEC not only on oil price formation problems but also on other topics. In January next year, the IEA and OPEC are scheduled to meet in Saudi Arabia’s Riyadh, where the IEF secretariat is located, to exchange opinions on international energy market supply/demand forecasts. As future supply/demand forecasts can contribute to securing timely investment to stabilize energy markets over a medium to long term and can influence market participants’ short to medium-term anticipation and expectations and the formation of energy prices, the three international organizations’ exchange of views on the matter has been recognized as significant. The deep engagement with the arrangement of the IEA-OPEC meeting on energy supply/demand forecasts may also be an important challenge for the IEF secretariat.

Under such situation, I would like to point out that Asian problems will grow more important for moves regarding talks between oil producing and consuming countries. The Asian market including China and India will increase its influences on energy market supply and demand,
and pricing. In this sense, Asia will become critically important as a junction for dialogue between oil producing and consuming countries. Appropriate messages about Asian opinions and stances and relevant market analyses will grow indispensable for making dialogue between oil producing and consuming countries successful and for reflecting Asian opinions appropriately in the dialogue. Our IEEJ will be ready to be firmly engaged in dialogue between oil producing and consuming countries by best utilising our Asian market analyses. In the future, our institution may be required to further enhance its functions and play greater roles in important international forums.

Contact: report@tky.ieej.or.jp