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## Twenty Years of Producer–Consumer Dialogue

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### Introduction

On 22 February 2011, at the extraordinary ministerial meeting in Riyadh, the International Energy Forum (IEF) turned a new page with the adoption of the Charter in which further institutionalisation of energy cooperation among producing, consuming and transit countries was agreed.

In its relatively short history, the consumer–producer dialogue can already look back on many important achievements. Many of these have come about in the past ten years. Yet without the confidence building of the early years, none of the achievements would have happened. The dialogue has been nurtured by various countries and has survived because no one party has or has been allowed to claim it as its own or become a vehicle for special interests. In the future, new countries will need to come along to extend the dialogue further. Now entering its third decade, the emphasis on the traditional producing and consuming countries is changing to include new consumers and producers, bringing new dimensions and challenges to the dialogue. The existing international organisations such as OPEC and IEA, whose roots can be traced to developments and events in the 1960s and '70s, have not been able to accommodate the increasing importance of the energy interests of these newcomers.

### Achievements

Twenty years after the first meeting in Paris in July 1991, the IEF has evolved into one of the most inclusive platforms for dialogue in which consumers and producers meet on a regular basis to discuss issues of common interest pertaining to the global energy scene. At present, the IEF member countries account for more than 90 percent of global oil and gas consumption and production. Such a broad and diverse base of constituents, however, does not in itself guarantee a successful and constructive dialogue. After all, these member countries have very diverse interests, which are often difficult to reconcile. A necessary condition for a successful dialogue is that despite their diverse interests, there is recognition among member countries of shared aims and an awareness of the common challenges facing producers and consumers.

Perhaps the main achievement of the dialogue of the past twenty years is its success in increasing the awareness of the high degree of energy interdependence, which most likely will increase in the foreseeable future. Rather than treating it as a source of tension and conflict, the IEF has been calling upon both consumers and producers over the years to embrace interdependence 'for its potential as a cohesive force underpinning healthy growth of the world

economy, fair energy trade, and international cooperation'. Such statements are a far cry from the tense relations between oil producers and consumers that prevailed in the 1970s and 1980s and reflect how much has changed for the better in the relationship. To some extent, the dialogue has also succeeded in bringing closer the two main consumer and producer organisations: OPEC and the IEA. The Charter now calls for further cooperation.

Another visible and concrete example of success in the consumer–producer dialogue is the establishment of the Joint Oil Data Initiative (JODI). The IEF Secretariat has consistently promoted JODI as representing 'the single most important collaborative effort to address the issue of market data transparency'. The promotion of greater transparency in energy markets has been a recurring key message in most international gatherings and is considered crucial to achieving security of both supply and demand. There are still critical problems that have challenged the achievement of JODI's objectives of providing timely and reliable data on all IEF member states. Yet JODI remains the single most comprehensive attempt to collect data of such magnitude. Another important achievement is that it has raised awareness of the technical difficulties involved in improving the quality and reliability of energy data and its timeliness. This has induced the Secretariat and its partners to play a more active role in improving data collection methods in different countries through providing advice, organising workshops and conducting training sessions.

The IEF has also achieved a certain degree of institutionalisation, which has helped to give the dialogue more structure. This institutionalisation, however, has not induced any shift towards creating a global energy organisation with binding global energy governance, nor has it affected the informality of the dialogue. The twenty-year history of the IEF shows very clearly that the parties concerned are strongly attached to the idea of the informality of the dialogue. This is expected, as energy issues involve quite complex political, economic and social dimensions, which are difficult to reconcile and changing the IEF into a forum with powers to make binding decisions would limit the scope for an open and frank dialogue.

## Managing Volatility

In the past twenty years, the intensity and breadth of the dialogue have been driven largely by key market events. Of these events, oil price instability has been the main impetus behind the intensification of dialogue in recent years. It is interesting to note, though, that while the parties' main concerns are about the level and volatility of the oil price, neither consumers nor producers have an interest in managing the price level. There is an implicit agreement that the determination of the oil price should be left to market forces. This does not imply that prices are not discussed in Ministerial meetings. But the closing statements are very general. They often call to 'reduce price volatility in the interests of producers and consumers' because volatility 'complicates the interpretation of market signals and may adversely affect investment'. Other statements call on 'both producer and

consumer countries...to take action to reach sustainable price levels' without describing what these actions might be.

Historically, producers and consumers have had very divergent interests: producers tend to favour higher prices while consumers favour lower prices, depending on the stage in the oil price cycle at which importers and exporters find themselves. Any policy to counter oil price shocks would not be credible if managed by parties with very divergent interests. In a rising market, producers lose interest in policing the upper boundary and, when prices fall, consumers lose interest in policing the lower boundary. The producer–consumer dialogue has not matured enough to deal with such complex issues or to suggest potential ways to manage oil price instability. There is also a clear power asymmetry in the short term. While producers have options in both falling and rising markets, consumers are much more constrained in their policies in the short term. In the long term, however, the balance of power tends to shift in favour of consumers who can pursue oil substitution policies, implement efficiency measures, raise taxes on petroleum products, and encourage the development of alternative energy sources which have the effect of reducing long-term oil demand and the share of oil in the energy mix. Thus, an important role for the consumer–producer dialogue is to bridge the gap between the long-term and short-term interests of consumers and producers in order to create a more predictable and stable oil market. Recently, there has been a realisation that too low or too high oil prices serve none of the groups and that 'oil prices should be at levels that are acceptable to producers and consumers to ensure global economic growth, particularly in developing countries' without any indication of what these levels should be.

Does the failure to bargain about price levels or to manage the price level within bounds mean that the consumer–producer dialogue has failed? The answer is no. Since both sides agree that the oil price should be set by market forces, the dialogue has aimed at improving the functioning of the market by promoting better understanding of the links between the financial and physical layers of the oil market and whether regulation is needed to improve market transparency. The IEF has also been showing a willingness to engage with the issue of stabilising short- and long-term expectations through better mutual understanding of oil market conditions and communicating to the market. In the Cancun Ministerial Declaration in Mexico in March 2010, producers and consumers noted for the first time the importance of stabilising expectations, recommending that the IEF should 'disseminate key information related to marginal cost, investment levels, and alternative energy sources that could help stabilize short and long-term expectations' and 'act as the forum through which a better mutual understanding of views is communicated to the market'.

The supply disruption caused by the first Gulf War in 1990–1991 proved to be decisive for the consumer–producer dialogue, as it increased the awareness of common interests among parties and revealed the usefulness of coordinating actions in key areas such as the use of stocks and spare capacity. Disruptions however did not feature prominently in the dialogue during most of the 1990s. The availability of large

spare capacity and the willingness of OPEC to fill the gap in the case of physical disruptions meant that concerns about disruptions received little priority in the policy agendas of consuming countries. The rapid rise in demand in the mid-2000s and the various supply shocks in producing countries such as Iraq, Venezuela, Nigeria and recently Libya brought back to the fore the issue of spare capacity and its role in dampening price volatility. Despite its rise in importance on the policy agenda, producers and consumers shied away from the issue for a long time. It was not until the Jeddah meeting in 2008 that specific calls were made for the expansion of spare capacity:

[T]he existence of spare capacity throughout the oil supply chain is important for the stability of the global oil market. Hence an appropriate increase in investment, both upstream and downstream, is necessary to ensure that the markets are supplied in a timely and adequate manner. Predictable energy and investment policies, as well as better access to technology, are necessary to this end.

The above statement highlights an important dimension, as it acknowledges that maintaining spare capacity is the responsibility of both producers and consumers; it should be extended to the entire supply chain and not to upstream players only. However, such statements are general and do not address the complexity of the issues surrounding spare capacity: Does spare capacity constitute a public good? If it does, should all parties share the cost of maintaining spare capacity? If spare capacity is to be held in producing countries, can consuming countries find acceptable mechanisms to compensate producing countries? In such a system, who makes the decision to release the supply from existing capacity? These and other questions have not yet been the subject of frank discussion and debate. Currently, policies concerning whether to maintain spare capacity and at what levels are solely set individually by governments with no coordination even between producing countries.

## Investments

Rather than focusing on geopolitically-induced disruptions, the dialogue has shifted towards potential disruptions caused by the lack of investment in the oil supply chain. The investment issue has been a recurring theme in most Ministerial meetings. One of the important achievements of the dialogue in this area has been the increasing awareness that investment is a shared responsibility between producers and consumers, as bringing available resources to the market requires adequate investment and timely investment in the entire oil and gas chain. Nevertheless, the fact remains that the decision to develop reserves in producing countries is mainly in the hands of their governments and the NOCs, and none of the producers wish to relinquish this sovereign decision either through discussion or agreements between producing countries or between producing and consuming countries. As a result of the wave of mergers in the 1990s, many investments in upstream and in refining are now in the hands of privately-owned oil companies in various consuming countries where

governments' influence is mainly in the area of regulation. Recognising this asymmetry, the consumer-producer dialogue has never attempted to coordinate investment plans. Instead, it has explored ways to remove impediments to investment in the oil sector. The basic message of the dialogue has been the importance of adequate investment, aided by 'favorable energy, fiscal, investment and environmental relations' which 'are needed for freer and expanded trade in oil and gas and for sustainable world economic growth'. The IEF agenda has broadened to discuss specific measures that can induce investment in the energy sector, such as reducing long-term uncertainty through increasing transparency and improving information flows on investment plans, energy security and climate change policies and their potential impact on demand, enhancing the corporation between NOCs, IOCs and Service Companies, and broadening cooperation and exchanges in the fields of human capital and technology advancement and many other measures.

## Conclusion

The development of the dialogue shows that in the last decade both parties have avoided confrontational topics such as green taxes and the financing of spare capacity and have focused more on themes that can bring them closer together. Furthermore, they also reveal that many key players are not yet ready to deal with more contentious issues. This approach has been effective in building confidence and promoting trust among the parties. However, there is a risk that in the long run the key issues that lie at the heart of consumers' and producers' concerns will become marginalised, leading to a loss of interest in the dialogue. Furthermore, while the dialogue in the 2000s has resulted in greater understanding of the nature of the investment problem and appreciation of the individual sides' point of view, concrete initiatives and proposals to alleviate the investment problem have remained limited. This reflects the fact that while consumers and producers have become more aware of challenges facing the oil market and more conscious of other party's concerns, there is still wide divergence of interests and even unwillingness by some parties to take the dialogue to the next stage where more concrete initiatives could be implemented.

The dialogue has already reached many 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 related to energy markets. The institutional structure supporting the dialogue continues to strengthen; the structure and quality of the dialogue have also improved over the years. With all this in mind, the evident conclusion must be that the past twenty years have been positive for the consumer-producer dialogue. Nevertheless, many challenges remain and many others are likely to emerge in the future. The way in which producers and consumers express their interests, to what extent they are willing to engage in issues that lie at the heart of their energy concerns, and whether they succeed in relating these energy issues to the wider context of political, economic and social security and the climate change challenge will define the future path of the dialogue.