

The consumer–producer dialogue

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Among the early energy research subjects that Robert Mabro undertook was the producer–consumer dialogue – the topic that was at the top of the agenda during the late 1970s and early 1980s. The markets were in turmoil at the time, lacking direction and vision as to how the new balance of powers between oil producers and consumers would turn out. Conferences among leading producing and consuming countries were held to no avail; delegates pursued an elusive agreement, while there was much misunderstanding between the two parties, along with significant differences of interest on which neither side was ready to compromise. Mabro had little, if any, interest in these formal venues; he proposed instead the importance of launching an informal process, one which did not lead to any agreements, but which enhanced a

better understanding among the actors. Mabro’s thought were reflected in a paper,¹ quotations from which appear in this article.

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‘AMONG THE EARLY ENERGY RESEARCH SUBJECTS THAT ROBERT MABRO UNDERTOOK WAS THE PRODUCER–CONSUMER DIALOGUE.’

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‘Producer–Consumer Dialogue’ was a subject much in demand at the time of the establishment of the Oxford Institute for Energy Studies (OIES) in 1982. OPEC influence was rising at that time, while the USA, led by National Security Advisor Henry Kissinger, advocated the establishment of the International Energy Agency (IEA), an organization representing the interests of industrial consuming states and countering OPEC influence. There was hardly any

public communication between OPEC and the IEA at the time.

Interest in Dialogue receded, but was then revived by a joint France–Venezuela initiative which convened in Paris on 1 and 2 July 1991. The USA was represented by a higher-level delegation than had been the case at previous events. Although many at the time had given up hope of reaching successful results, Mabro set forth his views on the meaning and worthiness of the Dialogue process, arguing that ‘*distinction needs to be made between dialogue and a binding international agreement*’. He stressed that ‘*the dialogue should be conducted with an open mind and the aim of finding out whether multilateral arrangements are relevant to the solution of the problems at hand, not with the intention of negotiating from the start of*



such an agreement'. Mabro envisioned the OIES and its activities as a venue for such an informal and ongoing dialogue; the purpose being to advance knowledge and foster a better understanding among energy professionals through research publications, lectures, or informal discussions, rather than attempting to strike agreements among governments.

Mabro stressed the need for a 'free thinking way' of addressing the issues which lie behind interest in a multilateral approach towards energy problems; emphasizing regional and bilateral strategies which are proposed by other parties as alternatives; and suggesting an agenda for inter-governmental discussions.

Topics defined under the 'Dialogue' include: *'oil price instability together with its corollary, sharp variations in the revenues of developing and oil producing countries'*. Mabro distinguished two types of instability: discontinuous and significant changes in oil price levels, as well as normal day-to-day market fluctuations. He added that in the previous two decades (the 1970s and 1980s) *'oil prices moved from one to a very different level on three occasions as a result of shocks'*. The causes of these shocks were either political disturbances or economic behaviour (the investment cycle or aggressive competition for market share), while some were caused by both.

Mabro believed that the effects of big shocks are *'often very damaging. They can cause economic recession in the world at large or destabilize oil-producing countries in the third world. [He observed that shocks] due to political disturbances cannot be avoided by means of international energy policy; shocks caused by economic factors are avoidable; and in both cases adverse effects can be significantly mitigated.'*

Note

¹ 'A Dialogue Between Oil Producers and Consumers: The Why and the How', Robert Mabro, OIES, SP2, 1991.

How can the market be of assistance? Mabro argues that the market *'plays a very useful, yet imperfect, role in allocating resources in the short run but is unable to provide appropriate price signals for investment decisions that influence the oil supply/demand balance in the long run'*.

Peculiar features surround the oil market: a very low cost floor for crude production, and a very high price ceiling set by substitutes. He considers the setting of a price level to be a 'fairly arbitrary affair'. This raises various questions. Where does the market get guidance to set a price level? If it cannot receive guidance from economics, where should the price level be?

What should be done with the market? According to Mabro: *'Although nobody should interfere with the market, other than removing imperfections, and leave day-to-day movements entirely to its operations, the question arises as to who should provide it with the signal about a desired price level?'*

While Mabro does not at first offer a viable/pragmatic answer to the question he raises, he proceeds to propose the following areas as markers for market developments: improvements to the flow of economic information necessary for good investment decisions; provision of indicators to the market (regarding a level around which prices can fluctuate freely in response to short-term economic forces).

Mabro proposed the following topics as agenda items for energy dialogue:

- Schemes involving both the creation of a surplus capacity cushion in a number of oil-exporting countries, and strategic stocks in a number of oil-importing states.
- Measures to improve the functioning of the oil market.

- Ways to establish better information flows in investment.
- Review the issue of re-integration of the oil industry in ways that publicize the many suspicions of both industrialized and oil-producing countries regarding the intentions of those who advocate access to their industrial sectors or resources.
- The question of the oil price.

What was the purpose of the oil producer/oil consumer dialogue? Is it to avert excessive oil price instability, or gradually to improve mutual understanding between the two groups? Mabro held to the latter view, arguing that dialogue helps in *'removing certain psychological barriers, dispelling some damaging misconceptions and irrational fears'*. He did not see the utility of a formal dialogue or of multilateral negotiations between sovereign states, since these are only possible *'when the parties on both sides of the exporter/importer divide each faces serious problems which they wish to solve [adding that the] incentive to seek a dialogue arises from the recognition that agreed international measures may ease these difficulties and provide benefits to both parties'*. A few industrialized countries expressed interest in a dialogue in the mid-1970s and in 1979–80 when OPEC appeared powerful – at these times the producers were not enthusiastic for the idea. OPEC developed a strong interest in a dialogue in the 1980s, when global oil markets glutted and prices fell, but the industrialized countries were unconcerned.

The dialogue can no longer be limited to 'energy problems' in terms of investment cycles, supply disruptions, and prices. Mabro proposed that recent concerns about the global environment should be added to the agenda, as this is to the mutual benefit of both producers and consumers.

