

Interview: Noé van Hulst, International Energy Forum

‘Stop being paranoid about being energy dependent’

With global energy markets facing multiplying challenges, the need for producing and consuming countries to work together on issues of mutual concern is more urgent than ever. At the centre of these efforts is the International Energy Forum (IEF). The IEF has made a major effort to improve transparency of global oil market data, and is now trying to do the same for gas data and investments in oil and gas production. ‘Our main challenge now is to translate words into action’, says Secretary General Noé van Hulst.

| by Alex Forbes

With the formation of the Organisation of Petroleum Exporting Countries (OPEC) in the 1960s and the OECD’s creation of the International Energy Agency in the mid-1970s, as a counterweight to OPEC in the wake of the first oil shock, there followed several decades of confrontation between the main producers of oil and its main consumers.

In 1991, at the time of the first Gulf War, François Mitterrand, then president of France, and Carlos Andrés Pérez, then president of Venezuela, called for a ministerial meeting that would bring the two sides together for dialogue. From that beginning there evolved over the following two decades a tradition of ministerial meetings that have come to be known as the International Energy Forum (IEF). In 2003 a permanent secretariat was established in Riyadh, Saudi Arabia.

When Noé van Hulst took over from Arne Walther as Secretary General in early 2008, he brought with him a vision that, valuable as the ministerial meetings were, the IEF needed to do more to ‘facilitate, deepen and enhance dialogue between

oil-producing and oil-consuming countries’. ‘We’ve proved that we are able to get oil-producing and oil-consuming countries at the ministerial level together to talk to each other,’ he says. ‘Our main challenge now is how to translate talk into action. Improving security of supply is the main issue for consuming countries, security of demand for producing countries.’

Given that there already exist organisations that represent the interests of consumers and producers – in the form of OPEC and the IEA – why does there need to be an organisation like the IEF? ‘For two reasons’, says Van Hulst. ‘Firstly, OPEC and the IEA legitimately try to make the best case from the point of view of their memberships. But we are in a situation where the two sides need to talk more to each other and develop actions which are in the interests of both. Even more important is that we cover producing countries outside of OPEC, such as Russia and Mexico, which are active members, as are key importing countries outside the IEA, like China, India and South Africa. So our forum gives a voice to non-OPEC producers, non-IEA consumers and the entire developing world at the same table.’



Photo: Roger Dohmen

The IEF secretariat may have come into existence to organise the ministerial IEF meetings, but in recent years it has been called upon to extend its role. The first concrete outcome has been an exercise called the Joint Oil Data Initiative (JODI), which aims to improve transparency in the oil market. 'We coordinate that exercise, but several international organisations co-operate,' says van Hulst. 'The IEA for their consuming member countries; OPEC for their producing member countries; APEC (the Asia-Pacific Economic Cooperation forum) for Asian countries; OLADE (the Latin American Energy Organisation) for Latin America; the United Nations; and the European Commission. The idea is to get the best possible up-to-date official monthly data on global consumption, production and stocks of crude oil and oil products. We get country data through those organisations, update our database every month, and make it available on the web at www.jodidata.org. As a coordinator we continuously push countries to improve the quality, completeness and timeliness of their data submissions and we work with the organizations on tackling inconsistencies, harmonization, etcetera. That is still

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our flagship activity and we have seen substantial improvement in 2008, with more countries than ever submitting their data in a timely and complete fashion. That helps market transparency which in turn limits oil price volatility.'

Smiley and grumpy |

Van Hulst concedes that a lot of work still needs to be done on JODI. 'Data transparency in the oil market is better than it ever was before – but it is still far from perfect. To give one example, big players on the consuming side, such as China and India, still don't submit sufficient stock data. So the market is always having to second-guess the trends in these key regions.'

To provide its participating countries with an incentive to submit data properly, the IEF publishes a league table which rates each country with a 'smiley face' if it is doing well, or a 'grumpy face' if not. This has proved surprisingly effective, says Van Hulst. 'At every ministerial meeting I go to, and whenever I meet ministers individually, I tell those countries that do not have three smiley faces on completeness, quality and timeliness of their data, that they should improve their statistics. That is their individual contribution towards improving the transparency of the market and limiting oil price volatility.'

Following the success of JODI, the IEF has embarked on a project to create a similar initiative in natural gas markets. Given how hard it's been to get JODI to work, one must wonder how hard it will be in gas, where markets are much more regional, more fragmented, and have different price formation mechanisms.

'True. It will take a long time to get that up and running, but, as the Chinese say, every long journey starts with a first step. I have asked the Russians and the Iranians at the highest level, to mention just two big players on the producing side, and they are going to help us. It's important that we start doing this, because the gas market is globalising, through LNG. We need to start building up that data transparency to keep track with the pace of globalisation.'

Van Hulst has not had formal talks yet with the Gas Exporting Countries Forum (GECF), which many observers see as a precursor to a "Gas-Opec". Van Hulst: 'It will be difficult to hold discussions with the GECF as a body until it has appointed a secretary-general. However, I talk to the players who have been pushing to form it and there's no doubt that they will co-operate with us on gas just as OPEC does with us on oil.'

Do's and don'ts |

The IEF has also started building – 'for the first time ever' – an official, freely available database on oil and gas investment. 'This came out of the exceptional ad hoc meeting in Jeddah in June 2008 called for by Saudi Arabia's King Abdullah because the oil price was going through the roof,' says van Hulst. 'One of the key recommendations prepared jointly by Saudi Arabia, the IEF, the IEA and OPEC was to build a database so that in the medium term the market has better information enabling us to start tracking the investment under way and potentially confront that with existing medium-term demand projections to look at the medium-term market balance.'

Another key element of the IEF's work has been to create new platforms for dialogue, beyond the ministerial meetings, to address specific issues. 'One that I'm excited about is IOC/NOC co-operation,' says van Hulst. 'Our first such forum, held in Kuwait last March, was very well attended by representatives from both IOCs (international, private oil companies) and NOCs (national, i.e. state-owned oil companies) – and some clear messages came out of that. Firstly, this has huge potential. There are good examples of decades-long partnerships between IOCs and NOCs, and it would be worthwhile diffusing that information in terms of do's and don'ts. The big question is how can this dialogue in the NOC/IOC forum help recognize the potential synergies and build value-adding partnerships.'

'A message that came out of the IOC/NOC forum that cannot be stressed enough is that you need to go in for the long term – decades and decades. You have to build up long-term partnerships built on trust. And you have to participate in the local communities, and help build up local training, infrastructure, R&D and such things.'

One of the reasons that relationships between IOC and NOCs have been strained is that often when IOCs went into a country they have been perceived to be less respectful of local customs than they ought to have been. Van Hulst: 'It's fair to say that

increasingly IOCs have been learning that lesson. It was interesting to see how in Kuwait – whether it was Total or ConocoPhillips or Shell or ExxonMobil – they were all saying the same thing. Yes, you have to look at it from the longer term perspective, yes you have to respect the local community, and no, there is no standard formula for success.’

In recent conference presentations, the IEF has identified availability of oil as one of the main global energy challenges. To address that issue, the IEF has been looking at technology. ‘Last December we held a technology symposium together with the IFP (the French Petroleum Institute) in Riyadh. I was pleasantly surprised at the upbeat message that came out of that. For instance, average recovery rates in oil are now around 35%, and there is tremendous potential in simply beefing up recovery rates, which could make so much more oil available. A one percentage point increase in the global recovery rate equates to two years of consumption. Increase the global recovery rate by 5 percentage points and you add the equivalent of Saudi Arabia’s reserves to the oil that we can use. The experts were saying that 50% global recovery rates would be attainable 10-15 years from now.’

Apart from that, the IEF has commissioned a major study that will be presented at the next IEF ministerial on how to reduce key uncertainties in the energy sector, especially with regard to investment. The IEF is also preparing for an assessment of biofuels, which will be written by globally respected experts Claude Mandil, former Executive Director of IEA and Adnan Shibab-Eldin, former acting Secretary-General of OPEC.

Paranoid |

What about environmental sustainability? ‘It is obvious from all the scenarios’, says Van Hulst, ‘that CCS (carbon capture and storage) is a promising technology which can make production

and consumption of fossil fuels more sustainable. It’s commonly accepted now that the industry needs to face that challenge. In producing countries there is tremendous potential for CCS used in combination with enhanced oil recovery, because that improves the business case for CCS. This is something that we will organise a separate event on in September 2009 in Beijing, before the climate talks in Copenhagen.’

Van Hulst’s message for the ministers of IEF countries is ‘to move beyond words to action. Don’t just ask for better data transparency but check your own statistical offices. Ask yourselves, are we in doing what we can? What has struck me since I took this job is that in this globalised world you cannot segment your messages. You cannot have one message at international meetings, then come home and have a separate message for your domestic audience. That undermines your credibility.’

A point van Hulst makes forcefully is that people need to understand that the world is moving towards energy interdependence rather than independence. ‘All the major net consuming regions of oil and gas are going to be importing more oil and gas than they do now for decades to come. They will be more and more dependent on the producing countries, because oil and gas reserves are concentrated in a limited number of them. At the same time the producer countries have a similar dependence, because they rely on the revenues from oil and gas exports to develop and diversify their economies. So this is a mutual dependence – this is world trade. So my call is, stop being paranoid about being dependent on somebody else for energy; because they are dependent on you to earn money. There’s nothing wrong with that. The concept of energy independence is obsolete in this globalised economy. Embrace the concept of interdependence, see it as an opportunity to develop trade and forge stronger relationships at all levels.’ ■

What is the IEF?

The mission of the International Energy Forum (IEF) is to facilitate and enhance dialogue between energy producing and consuming countries. It organises a series of biennial ministerial meetings – the largest gatherings of the world’s energy ministers. The last took place in Rome in 2008, the next will be held in Cancún, Mexico in March 2010. The then crown prince of Saudi Arabia, now King Abdullah, offered to host the secretariat in 2000. Unusually, the IEF remains an informal organisation, not based on any treaty. Its functions are complementary to some extent with those of the International Energy Agency (IEA) and OPEC.

The IEF’s Secretary-General, Noé van Hulst, replaced Ambassador Arne Walther last year. Van Hulst’s previous posts include Director-General for Energy at the Ministry of Economic Affairs in the Netherlands and Director Long-Term Co-operation and Policy Analysis at the IEA.