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Macroeconomic policy questions: international trade and development

Sustainable development: implementation of Agenda 21, the Programme for the Further Implementation of Agenda 21 and the outcomes of the World Summit on Sustainable Development

Identical letters dated 11 August 2008 from the Chargé d'affaires a.i. of the Permanent Mission of Saudi Arabia to the United Nations addressed to the Secretary-General and the President of the General Assembly

I have the honour to transmit to you, on behalf of the Jeddah Meeting on Energy, held in the Kingdom of Saudi Arabia, on 22 and 23 June 2008, and the meeting of producing and consuming countries, the enclosed joint statement from the Jeddah Energy Meeting and the background paper to the Jeddah Energy Meeting (see annex).

I should be grateful if you would circulate the present letter and its annex as a document of the General Assembly, under agenda items 52 (a) and 54 (a).

(*Signed*) Abdullatif H. **Sallam**
Counsellor
Chargé d'affaires a.i.

Annex to the identical letters dated 11 August 2008 from the Chargé d'affaires a.i. of the Permanent Mission of Saudi Arabia to the United Nations addressed to the Secretary-General and the President of the General Assembly

[Original: Arabic and English]

Joint Statement

by the Kingdom of Saudi Arabia and the Secretariats of
the International Energy Agency,
the International Energy Forum and
the Organization of Petroleum Exporting Countries

Jeddah Energy Meeting

22 June 2008

Upon a timely and kind invitation from the Government of the Kingdom of Saudi Arabia and under the patronage of the Custodian of the Two Holy Mosques, King Abdullah Bin Abdul-Aziz, Ministers and representatives from many producing and consuming countries, with the attendance of oil industry representatives as observers, met in Jeddah, Saudi Arabia, on 22 June 2008, to discuss the current oil market situation.

Participants noted with concern that oil prices have risen sharply and become more volatile, due to a host of factors. They sought to identify the causes and consequences of recent price behavior and suggested areas of improvement for the efficient operation of the oil market. Participants also noted that current oil prices and their volatility are detrimental to the global economy and, in particular, the economies of least-developed countries.

Participants agreed that the situation requires concerted efforts from all parties — producing and consuming countries, the oil industry and all concerned parties — to bring stability to the international oil market for the benefit of all.

Taking into account their diverse national circumstances and priorities, as well as their shared interest in a stable global oil market and sustainable economic growth, the participants recognized the importance of the following.

- That the 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.

- That the transparency and regulation of financial markets should be improved through measures to capture more data on index fund activity and to examine cross-exchange interactions in the crude market.

- That the quality, completeness and timeliness of oil data submitted through the monthly Joint Oil Data Initiative (JODI) should be enhanced. In order to further improve market transparency and stability, the seven organizations involved in JODI (APEC, Eurostat, IEA, IEF, OLADE, OPEC and UNSD) are called upon to start work to cover annual data, that includes, among other things, upstream and downstream capacities and expansion plans.

- That there should be immediate collaboration between the IEA and OPEC Secretariats, together with the IEF Secretariat, on preparing shared analyses of oil market trends and outlook, as well as of the impact of financial markets on the level and volatility of oil prices, which can be used to better understand the market situation.

- That development assistance from the national, regional and international finance and aid institutions, is intensified, to alleviate the consequences of higher oil prices on the least-developed countries.

- That co-operation is enhanced among international, national and service companies from all producing and consuming countries in investment, technology and human resource development.

- That energy efficiency is promoted in all sectors through passing on market price signals, technology transfer and the sharing of best practices in energy production and consumption.

The host and the parties to this statement will convene a working group to follow up the needed actions from the above, as appropriate. Participants welcomed the kind invitation from the UK government to hold a meeting on the progress made on the above issues in London before the end of the year.

Background paper to Jeddah Energy Meeting
Jointly Prepared by

the Kingdom of Saudi Arabia
the International Energy Agency,
the International Energy Forum,
the Organisation of Petroleum Exporting Countries

Global Efforts to Stabilize the International Oil Market

This background paper of the special meeting of producing and consuming countries, as well as some representatives from the oil industry — which is taking place in Jeddah on 22 June 2008 — has been prepared by the host country, Kingdom of Saudi Arabia, the International Energy Agency (IEA), the International Energy Forum (IEF) and the Organization of the Petroleum Exporting Countries (OPEC). It seeks to identify the causes and consequences of the recent price behavior and suggests areas of improvement for the efficient operation of the oil market.

Introduction

Spot and long-term oil futures prices have risen sharply in the recent past. This has been accompanied by an increase in price volatility.

However, despite such a price environment, global oil demand, although slower, continues to grow steadily, driven by non-OECD countries, where GDP growth is a much more important determinant of demand than price. This growth has been reinforced by the fact that oil demand is occurring basically in the price-inelastic sectors, such as transportation and petrochemicals, and is being influenced by the effects of subsidies and taxes.

This growth has also been accompanied by stronger linkages between the oil markets (as well as other commodity markets) and the financial markets, with activity in regulated and unregulated commodity exchanges also expanding.

This price behavior nevertheless impacts upon both consumers and producers, energy-intensive industries and the growth path of the world economy, even though this has, to date, been more resilient. However, the impact on the least-developed countries has been more pronounced.

The recent developments in the world oil market require concerted action from all parties — consumers, producers, the oil industry, the concerned intergovernmental organizations and all other interested parties — to work towards understanding the underlying reasons behind such developments, reducing uncertainties and taking the necessary actions to ensure the stability and sustainability of the energy system.

Causes of the Recent Oil Price Developments

The causes of the recent oil price behavior are multiple and complex. A host of factors has been contributing to it, and their exact weights are difficult to assess.

The following market fundamentals factors can be identified.

- Lower crude oil spare capacity, relative to historic high levels, in the face of the projected rise in demand, has made markets wary of future supplies. Constrained upstream investment in some producing and consuming areas, due to different factors, such as access to technology, cost-inflation, shortages of skilled manpower, political and investment constraints, and demand predictability, has had an impact on such capacity.

- Limited refining capacity in oil product markets, due to a constrained refining investment, environmental standards, cost-inflation and stringent laws and regulations, resulting in poorer refining margins. This has been amplified by a mismatch between the quality of crude supply on the one hand and the demand for lighter products and tighter specifications on the other. In addition, while contributing to energy supply growth, biofuels are having a compounding effect on the refining industry in some regions.

- Fears of supply disruptions, driven by geopolitical concerns, technical shut-ins, accidents and weather-related events, such as hurricanes.

- Perceptions by some market participants of a limited oil resource base, lower growth in non-OPEC supply and lower-than-normal levels of some product stocks.

- The inclination of refineries to increase the distillate yields to meet demand and improve their margins has pushed up the price of distillates, as well as dragging up the price of crude oil.

In addition to the above market fundamentals factors, there have been other causes not necessarily related to the underlying demand and supply trends. Some of these can be identified as follows.

- The increasing interaction between the oil market and the financial markets, making oil more of a financial asset than before.

- The increase in the investment inflows from financial institutions, pension and hedge funds, and private equities, into the oil (and other commodities) futures and over-the-counter markets, due to the relative weakness in the value of the dollar and the lower returns on other assets.

- Uncertainties about the monetary, fiscal, energy, investment, trade and environmental policies of consuming and producing countries.

- Unrealistic assessments of the oil market situation and price projections by some entities.

While global demand has been growing for the past few years, as has been the case with global supply, all the above-mentioned factors and causes have played a part in increasing price levels and their volatility.

Consequences of the Oil Price Developments

The oil price rises and the underlying volatility, if they continue without concerted action from all parties, will have an impact on the economies of the consuming and producing countries alike, as well as on the long-term stability of the international oil market and world economy. This could have the following consequences.

- The adverse impact on economic growth, especially in the least-developed countries, through the energy/economy linkages.

- Higher oil prices will affect heavily energy-intensive industries and the cost of transportation, and could result in higher inflation.

- Higher oil prices will enhance the flow of investment into alternative fuels, which will put a floor to oil prices.

- Continued oil price volatility gives confusing signals to investors in the upstream and downstream and delays required investment.

- Higher oil prices and volatility have increased activity in the oil futures markets in a spiralling effect.

Proposals to address the current world oil market situation

The causes and consequences of the current oil price environment referred to above call for a combination of efforts on the part of producing and consuming countries, the oil industry and all other interested parties. Taking into account their diverse national circumstances and priorities, as well as their shared interest in a stable global oil market and sustainable economic growth, the following proposals can be considered.

- 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.

- Improve the transparency and regulation of financial markets through measures to capture more data on index fund activity and to examine cross-exchange interactions in the crude market.

- Enhance the quality, completeness and timeliness of oil data submitted through the monthly Joint Oil Data Initiative (JODI), covering production, consumption, exports, imports and stocks. In order to further improve market transparency and stability, the seven organizations involved in JODI (APEC, Eurostat, IEA, IEF, OLADE, OPEC and UNSD) could start work to cover annual data, that includes, among other things, upstream and downstream capacities and expansion plans.

- Immediate collaboration between the IEA and OPEC Secretariats, together with the IEF Secretariat, on preparing shared analyses of oil market trends and outlook, as well as of the impact of financial markets on the level and volatility of oil prices, which can be used to better understand the market situation.

- Intensify development assistance from the national, regional and international finance and aid institutions, to alleviate the consequences of higher oil prices on the least-developed countries.

- Enhance co-operation among international, national and service companies from all producing and consuming countries in investment, technology and human resource development.

- Promote energy efficiency in all sectors, through passing on market price signals, technology transfer and the sharing of best practices in energy production and consumption.