



Session 2

Energy Markets: Mitigating Volatility

Keynote Speech

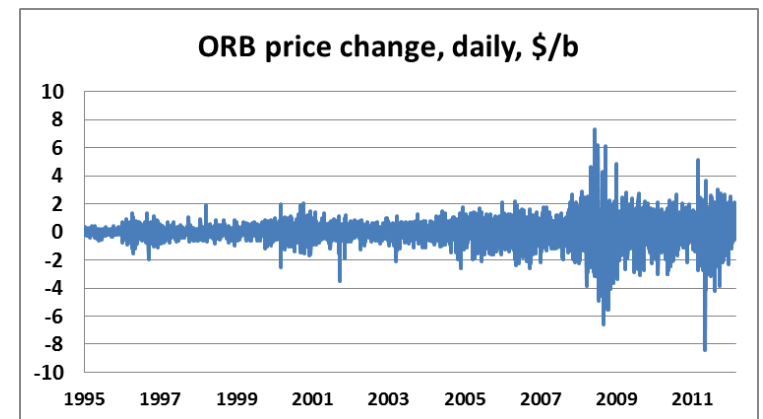
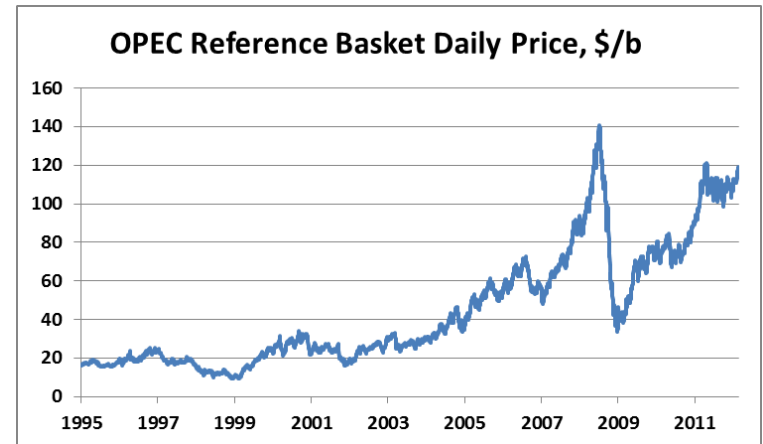
Abdalla Salem El-Badri
OPEC Secretary General

Kuwait City, Kuwait
13th March 2012

Large price swings



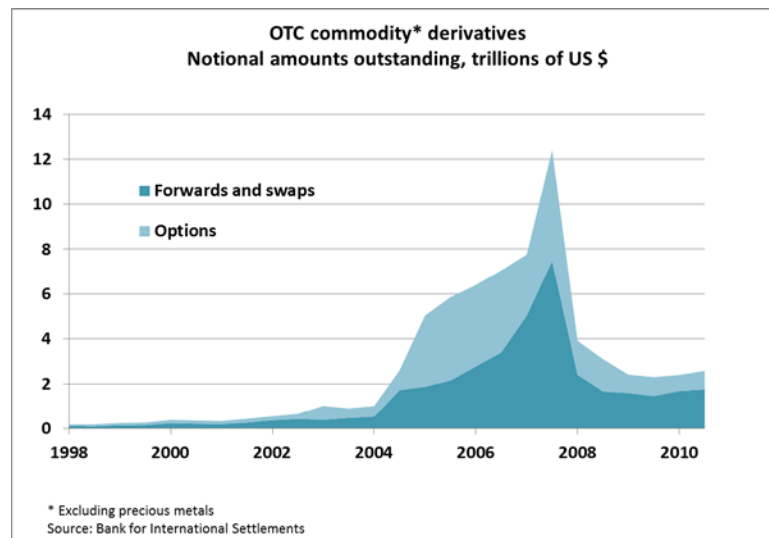
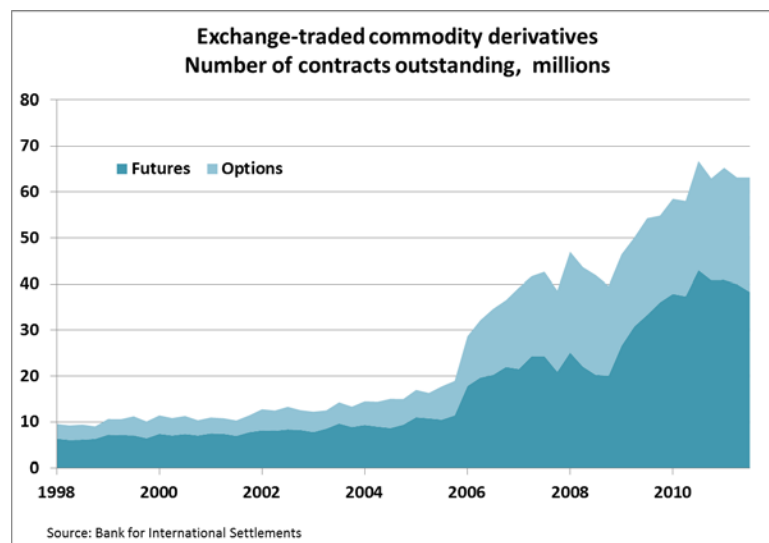
- In the late 1990s, oil prices plunged below \$10/b
- OPEC underscored that this is detrimental to producers and, in the long-run, to consumers
- The industry undertook deep cost-cutting strategies: investment stalled and workforce shrunk
- OPEC's spare capacity proved very helpful when oil demand rebounded
- Greater daily price changes since 2007



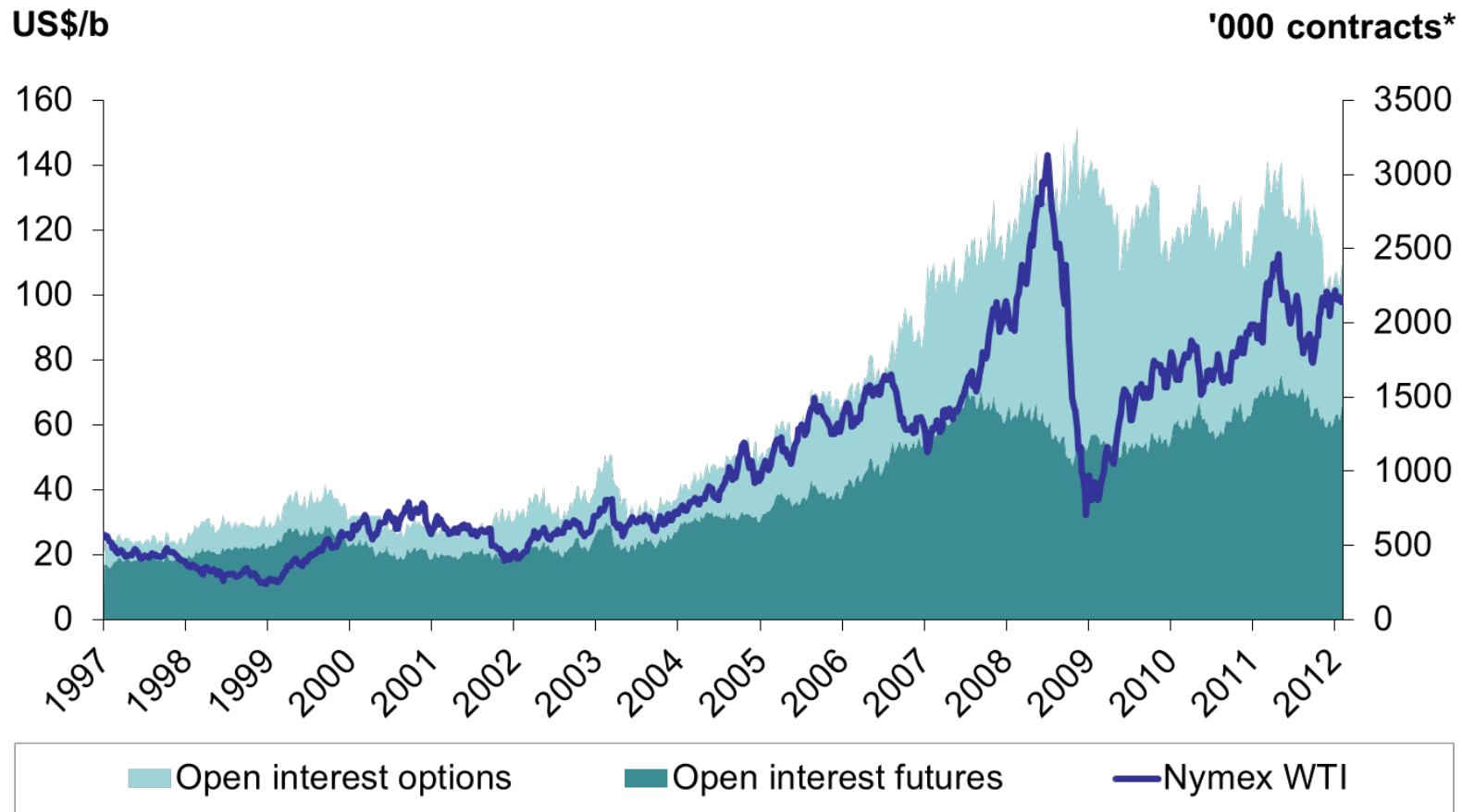
Since 2004, a new phenomenon: the financialization of commodity markets



- Since 2004, participation of financial players has grown dramatically
- Greater diversity of financial investors
- Varied and complex player strategies, such as:
 - Hedge against inflation
 - Hedge against currency fluctuations
 - Portfolio risk management
 - Arbitrage
 - Index tracking
 - Speculation



NYMEX light sweet crude oil: large increase in open interest



* Each contract is 1,000 barrels



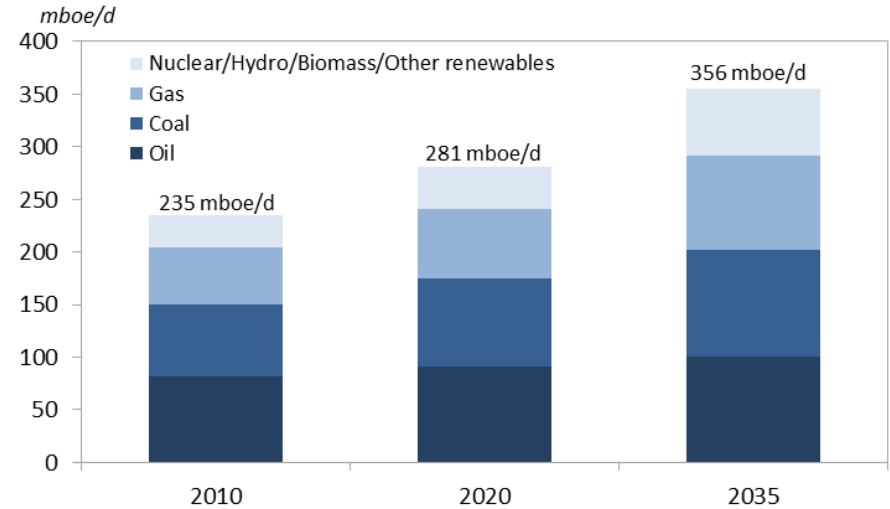
- **The question: does increased participation of financial investors alter the proper functioning of oil markets in terms of price discovery and risk transfer?**
- **Increased awareness: the Jeddah Energy Meeting in June 2008**
- **Regulatory reforms underway**
- **Agreed areas of cooperation among IEA, IEF and OPEC: a successful implementation**
 - Two Workshops held on the interactions between financial and physical markets
 - A Forum on energy markets regulatory reform
 - Two Workshops on energy outlooks
- **Joint Organisations Data Initiative**
 - Great achievements in 10 years
 - Further strengthening is warranted

World energy demand by fuel type in the Reference Case

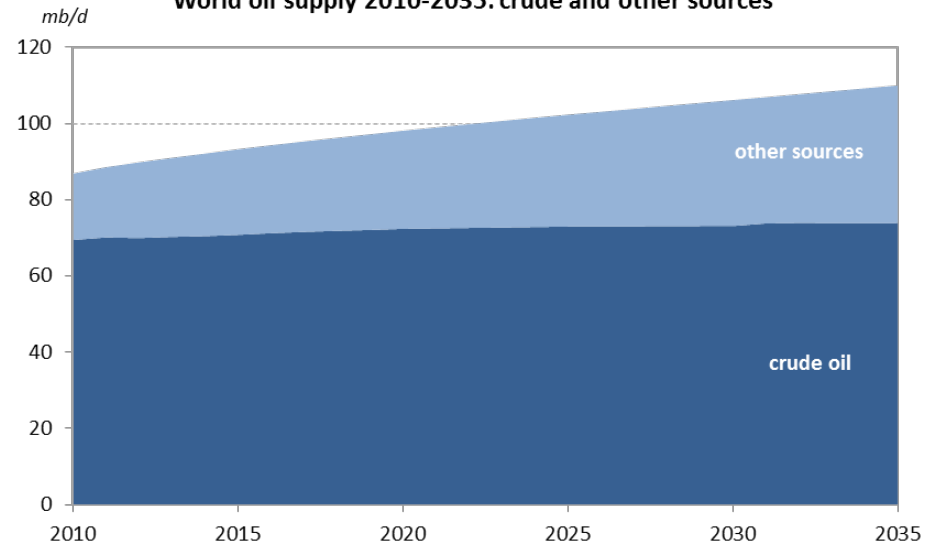


- Energy demand to increase by 51% by 2035
- Fossil fuels will continue to satisfy the major share of energy needs
- Sufficient resources
- The overall share of oil will decline
- Diversity of oil supply

Total energy supply, 2010-2035



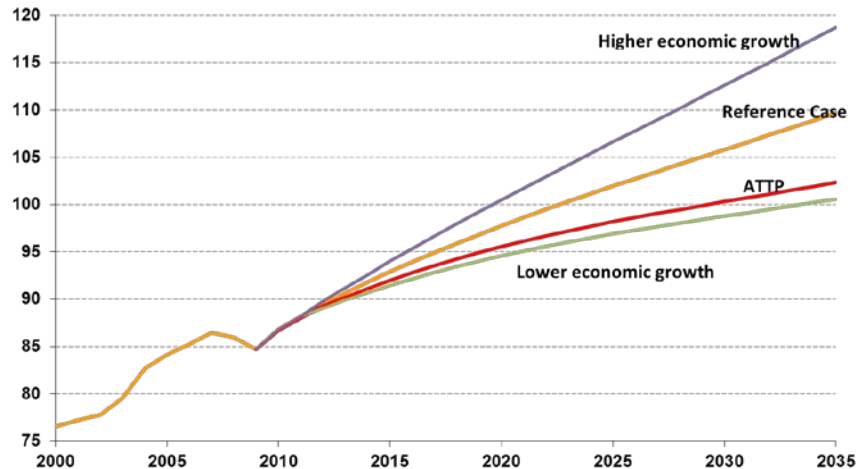
World oil supply 2010-2035: crude and other sources



Scenarios stress uncertainty over future oil demand

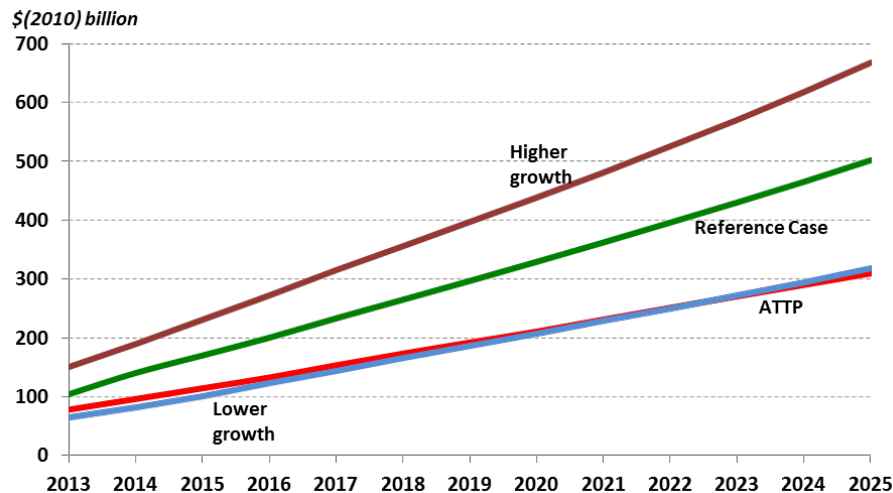


mb/d



Large differences in oil demand between scenarios...

...and this points to a wide range of cumulative OPEC investment needs





- **Extreme volatility and excessive speculation detrimental to all**
- **Need for:**
 - Well-designed regulatory reforms
 - Further strengthening JODI
 - Advancing academic research
- **The importance of the producer-consumer dialogue**



Thank you

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