

“Oil and the World Economy”
Speech of Shri Murli Deora, Minister for Petroleum & Natural Gas, Govt. of India at
“London Energy Ministers Meeting”
On
December 19, 2008

Excellencies
Hon’ble Ministers
Distinguished Delegates
Ladies & Gentlemen

It is my proud privilege to represent India in this august forum “London Energy Ministers Meeting”. The timing of the meet could not have been better when all of us are together fighting one of the biggest economic meltdowns.

There was an unprecedented boom; then the collapse. Who imagined this? There were some indications and apprehensions which we discussed last time at Jeddah. However, the dizzy heights of the oil price curve restricted our responses. Steep rise in oil prices was distressful for the energy deficient economies, as their evolution, sustenance and the growth centered on oil.

In the recent past with sudden collapse of the crude prices, you would have realized that the speculators have been having a field day in causing extreme volatility in the prices. It is now evident that oil prices are being governed by the commodity exchanges. This is a dangerous sign and should have alerted all of us. Unfortunately it did not.

Stability is the first requirement for sustained economic development. Oil prices on a rollercoaster have created only uncertainty.

What we now need is to rediscover stable market with transparent regulations; the market where producers as well as consumers find equal respect.

Another important issue is reasonable oil price; neither too low to discourage investment in capacity and capability build-up; nor too high playing havoc with import dependent economies.

You may recall, during Energy Ministers’ meeting at Jeddah, India proposed adoption of a “Price Band Mechanism” for oil. Basically, to align oil prices with the fundamentals.

We have limited supply centers. Most of the exporting economies depend heavily on oil exports (like, Venezuela, Nigeria, Middle East, Russia and few CIS countries).

Sharp decrease in oil prices, as witnessed now at \$40 per barrel, will adversely affect their economies choking the supply lines.

At the same time, consumers burdened with high oil prices, like \$147 per barrel in July 2008, will see their economies under tremendous strain.

Balancing of interests of producers and consumers can only evolve a healthy market.

Volatility of oil prices was the key issue in the Jeddah meeting in June 2008. We were concerned about “unpacking the uncertainties” in oil business. I believe the Jeddah resolves were remarkable. Cooperation, collaboration and supporting mutual confidence was the premise. Today - in this new economic order – it is more relevant than ever.

To my perception, so far no clear picture of this new economic order has emerged. But for sure, growth prospects have deteriorated sharply the world over.

Related impacts like collapse of established institutions, bankruptcy of major investment banks, closure of companies, liquidity crunch, job cuts, etc., are extremely painful.

How much time it will take to heal the wounds is anyone's guess. The depressed scenario has forced the corporates the world over to drop and defer their proposed investment plans and instead concentrate on less risky ongoing projects.

Oil industry is not an exception. Falling crude price has adversely affected revenue streams of producing nations and it may eventually lead to squeezing of investments for future projects which are under implementation or were conceptualized; particularly, oil and gas exploration in frontier and deep water regimes, arctic oil, etc. This is disturbing news.

I hope the present crisis won't lead us to another "Lost Decade" as witnessed in the late nineties when low crude oil prices restricted investment, capacity creation and recruitment.

Shortfall in capacity or capability build up will jeopardize future supplies and volatility in oil prices may rule again. The circle will fold in upon itself: 'uncertainty' to 'uncertainty', 'instability' to 'instability'.

Among all these uncertainties, arising out of new economic order, only certainty is that oil dependence of the economies is not going to meltdown.

Squeezing oil or energy demand is a temporary phenomenon. Economic growth means higher demand for energy. Higher demand would require more efficient energy markets with focus on future.

The energy leaders present here will have to address this first issue – maintaining momentum for capacity and capability build-up.

We very well addressed this issue in the Jeddah meet. To quote from Jeddah statement:

Quote:

Appropriate increase in investment both in upstream and downstream is necessary to ensure that the markets are supplied in timely and adequate manner. Predictable energy and investment policies as well as better access to technology are necessary to this end.

Unquote:

Making oil business transparent is another important issue. In this regard, a lot of expectations are pinned up on upcoming report "**Unpacking Uncertainty**", which **IEF Secretariat** is preparing.

We will have to go beyond our compulsions to reach the realities and draw governing rules for a transparent oil market where expectations of producers and the consumers are addressed without third party interventions.

However, collective and collaborative interventions are required for strengthening **T-T framework**; the Technology and Talent. Without these we can't tap the locked oil and gas assets or locate the new ones in challenging geographical areas.

Technology evolution means fusion of experience with emerging challenges. The resource holders along with the consumers will have to sustain technology evolution. This sustenance requires talent.

One of the biggest challenge before the industry is retaining and inducting new talent. Innovation is also required to address environmental concerns. Here also technology, talent and commitment will play a vital role.

This august forum of 'Energy Leaders' has immense responsibility towards providing a structured solution for sustainable growth for the industry. The continued dialogue signifies commitment and that is reason we are here just after six months.

We will have to take our resolves still further to ensure that we are able to address global energy aspirations in sustainable manner.

Needless to say that we have faced distressing consequences of the high volatility in oil prices in recent months.

I suggest the two measures for your consideration.

1. We should collectively put in place appropriate regulatory mechanism to ensure that unhealthy speculative practices are restrained and absolute transparency is brought to crude oil market. To this end, I propose that this Forum may decide to set up an Expert Group to make suitable recommendations in this regard.
2. Stability in oil prices can be achieved provided the suppliers and buyers entwine their interests by entering into long-term sale and purchase agreements not only for the purpose of supplies but also for prices at which such supplies are made. Spot sales should be confined to the minimum.

Thank you.