

UNITED NATIONS ECONOMIC COMMISSION FOR EUROPE

What **UNECE** does for you



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your energy resources

You feel concerned about emerging security risks and sharply rising oil prices, as well as about the dependence of your country in the energy sector. As Clark Talkington, Secretary of the UNECE Ad Hoc Group of Experts on Harmonization of Fossil Energy and Mineral Resources, explains, the UNECE seeks to reduce the instability of the global energy market and its negative impact on the world economy.



Why do we need to harmonize fossil energy and mineral resources?

Establishing a complete picture of the current and future energy supply base is necessary for effective resources management. Accurate and consistent estimates of fossil energy and mineral reserves and resources are the foundation for such assessments. A number of different standards have evolved over time in response to local needs. They are by their very nature not built to serve the needs that arise in a globalized economy. As a result, there is growing interest in developing common and universally applicable standards for estimating and reporting energy and mineral reserves and resources.

In the 1990s, the UNECE took the initiative to develop a simple, user-friendly and uniform system for classifying and reporting

reserves and resources of solid fuels and mineral commodities in response to the interest of member countries in developing a standard reporting system.

The result of these efforts was the creation of the United Nations Framework Classification for Reserves and Resources of Solid Fuels and Mineral Commodities (UNFC) that was endorsed by the United Nations Economic and Social Council (ECOSOC) in 1997. The UNFC for minerals has been applied in over 60 countries worldwide. In 2004, the Classification was extended to also apply to petroleum (oil and natural gas) and uranium, and was renamed the UNFC for Fossil Energy and Mineral Resources. ECOSOC in its resolution 2004/233 invited the Member States of the United Nations, international organizations and the UN regional commissions to consider taking appropriate measures for ensuring its

worldwide application. This effort is being led by the UNECE Ad Hoc Group of Experts on Harmonization of Fossil Energy and Mineral Resources Terminology.

You mention the terms “reserves” and “resources.” Is there a difference?

There is a significant difference. The appropriate application of the terms is often an inexact science and can be the subject of great debate, and often misunderstanding.

Simply put, the “Resource” refers to all quantities of petroleum, natural gas, coal, or other mineral in the ground, even if not economically or technically recoverable.

“Recoverable resources” are those quantities anticipated to be recovered from the estimated resources. In fact, many classifications allow for “inferred” or “suggested” resources, whereby one may presume that the resource exists based on proximity to known resources or favourable geological conditions.

“Reserve” on the other hand is the technically and economically recoverable portion of the recoverable resource.

Beyond the basic differences in these terms, we must also recognize that in different parts of the world and for different substances, definitions for a “reserve” or a “resource” can vary, reflecting the diversity of cultures and practices worldwide. In UNFC we had to take this into account when we used these terms.

While the differentiation between the two terms may seem

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obvious and straightforward, in reality it is very challenging. Changes in commodity pricing, infrastructure development, technologies, policy and regulatory frameworks, and geopolitics can increase or decrease that part of the resource that is technically and economically recoverable.

What are the main advantages of this classification system?

The primary advantages of the UNFC are: (1) it is the only classification system that can be universally applied across both petroleum and solid mineral resources, (2) it uses a simple, intuitive number system that is easily understood in any language, and (3) it can be mapped against any existing code so that governments or professional societies have the ability to retain their own codes for their specific purposes while relying on the UNFC to achieve more universal consistency. For these reasons, we believe the UNFC would provide a strong foundation for more consistent financial reporting, better informed energy studies, improved business processes, and more effective resource management.

And this is not only for petroleum and natural gas?

This can be used for coal, uranium, and other solid minerals. In fact, it was first developed for solid minerals.

Is there consensus on the need for a single classification system?

Generally, there is broad agreement that a single global market will benefit from a set of consistent and globally recognized terms and standards. As with any effort at harmonization, though, the debate tends to be less about the need for it and more about finding the best path to harmonization and the best model. There are stakeholders who believe that the UN system is best placed to achieve this result for the reasons outlined previously.

However, it is important to realize that in addition to the UN, the global petroleum and mining industries have developed

their own classification systems, as have a number of countries including China, Norway, the Russian Federation, and the United States. Many of these systems were developed over a considerable period of time and have strong constituencies. For obvious reasons, they are reluctant to give up these systems and want to be certain that their systems can be adapted to a universal system. As we develop the UNFC we must be sensitive to this.

Fortunately, we have a good chance at success because all the organizations and countries listed above are active participants in the UNECE Group of Experts along with other UNECE and non-UNECE member countries, and key organizations such as the International Energy Agency, Organization of the Petroleum Exporting Countries, International Atomic Energy Agency, Organisation for Economic Cooperation and Development, World Petroleum Council, World Energy Council, International Energy Forum, and the International Accounting Standards Board.

What is the UNECE's role?

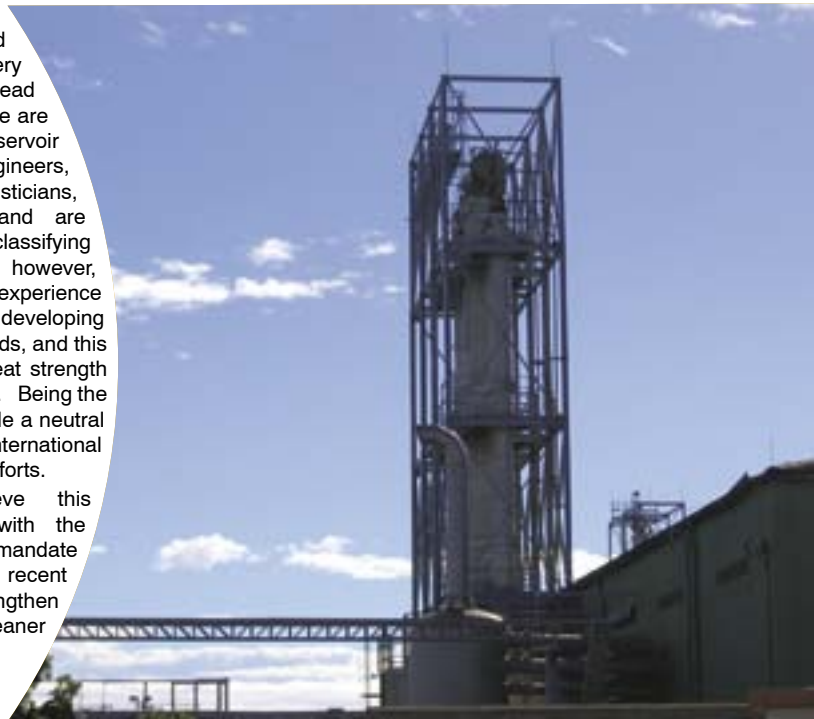
There is clearly a need for a universal code, and the UNECE is very well placed to lead this effort. True, we are not petroleum reservoir or mining engineers, geologists, geostatisticians, or accountants and are not experts in classifying reserves. We do, however, have a great deal of experience at the UNECE in developing norms and standards, and this is viewed as a great strength of our organization. Being the UN, we also provide a neutral forum and strong international legitimacy to the efforts.

We also believe this effort fits well with the UNECE's mandate outlined in the recent Reform: to strengthen activities in cleaner

energy production, energy security and diversification of energy sources. The benefits that will accrue from improved and consistent data will have a positive impact on all these activities within the UNECE region and globally.

What are your short-term tasks?

In the near term, we are continuing to participate in a wide range of events to convey the progress on our work and the importance of one common standard. In addition, the Group of Experts will convene for its 3rd annual session on 11-13 October in Geneva. At the meeting, we will be receiving reports from task forces on petroleum and solid minerals, and we expect to make further progress on the case studies and guidance being prepared which apply the UNFC to real-world examples. Also on the agenda will be discussions of the long-term governance of the UNFC that will support education and outreach and will ensure an open and transparent process for keeping the UNFC current.



For more information:
www.unece.org/hlm/welcome.html

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