

We are starting 2006 with a look at the way in which the high current price of oil might affect our economic expectations and how the oil producers are dealing with this sudden increase in their revenues. This will be a subject of particular interest to those of our readers who can easily recall the experiences of the 1970s. We also have two articles dealing with aspects of environmental policy, one that looks at the role of technology in reducing EP costs and one that looks at Gas Strategies for suppliers of the Atlantic Basin.

Roger Van Noorden looks macro-economically at the oil price increase. He picks out three apparent problems, sets out an answer to each and then discusses these answers. The three problems concern the United States' trade deficit, the persistent budget deficits of many Western economies and the absence of inflation. Although all three have so far been under relative control and have not as yet upset international economic balances he concludes that we are not necessarily out of the wood.

Hassan Hakimian looks at the problem of managing the new wealth from the producers' point of view and questions whether this time they can make a positive and lasting effect on their domestic economies. He finds some evidence that this is so. One hopeful sign is, for instance, that some of the extra revenue is being

siphoned off into stabilisation funds rather than being spent. Nevertheless, the way in which the very extensive remainder is spent is crucial. It is needed in social expenditure generally rather than in the over-supplied military investment. Youth unemployment is the most acute challenge for Middle East governments. Inflation remains a threat, as do property and local stock exchange prices. The outlook remains uncertain.

Walid Khadduri considers the situation of the Arab oil producers, particularly in their ability to absorb the new streams of revenue. One hopeful sign is the privatisation of state companies and public investment opportunities provided by family firms, although the national oil companies themselves remain out of bounds. Another is the policy focus on debt reduction and restructuring. While money

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is for the most part being invested locally or regionally there is, however, a grave danger from stock market and property speculation, and there is always the threat presented by the ever-present problem of regional politics.

Looking to the environmental issues, Malcolm Keay raises the important question of how to measure progress. As he points out, governments are at present unable to measure outputs from policy decisions even though the desired outputs are easy enough to state. He gives the examples of energy efficiency and renewables and shows how neither is subject to any meaningful measurement. His message is brutal – if governments want to take climate change seriously they will have to start taking measurement issues seriously.

A more enthusiastic message comes from Benito Müller in his report from the latest ‘Kyoto’ meeting (working under the peculiar acronym of COP/MOP) in Montreal. First, the Marrakesh Accords were adopted; second, a compromise was reached on the question of compliance with the Kyoto targets; third, the Clean Development Mechanism was improved; and, finally, an agreement (of sorts) was reached on negotiations for a post-2012 regime. None of this was certain before the delegates arrived.

Turning to the capacity of technology to reduce E&P costs, Mark Andersen points out that from 1981 to 2003 E&P costs reduced by two-thirds. Now they are rising, but he describes some of the ways in which technical development has been able (and hopefully will continue to be able) to reduce these effects. Furthermore, some of these new developments are the result of research by the service companies, so that there is now good reason for a greater and more willing cooperation between the oil and service companies.

We also have an article by Hadi Hallouche, Michael Tamvakis and Bryan Train on the strategies of non-OECD gas producers in the Atlantic and Middle East. Their analysis leads them to define gas producers in terms of those

with gas rather than oil reserves, those with undeveloped gas reserves and those who are niche players. Their geographical location and the extent of state involvement in their operations are further elements in defining how best individual countries should develop their gas reserves.

Lastly, the Personal Commentary in this issue is by Charles Henderson who muses on the nature of the so-called Gas Crisis in the UK, a particularly appropriate subject in the light of the more recent problems highlighted by the actions of Gazprom in Ukraine.

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