

Six articles published here are grouped under two different headings: the EU Energy Policy and Features of Recent Oil Developments. Both are highly topical. The financial crisis which risks to push the environmental objective toward the back burner, the election of President Obama which on the contrary involves a greater concern with that objective, and the Russian–Ukrainian gas supply crisis, all call for an appraisal of the EU ambitious energy policy. The current state of the world petroleum market characterised by relatively low prices, falling oil demand, a reluctance to invest, distorted futures prices, and considerable uncertainties also calls for an analysis of some of its aspects.

David Buchan and Giacomo Luciani who are among the best independent observers of EU policies cover the first theme. Buchan gives marks to the different policies comparing the EU potential for success on every item with actual performance. While the environmental and the internal market policies score high marks, supply security, nuclear, R&D, efficiency and renewable energies leave much to be desired. He tells us why. Among the many reasons, an important one is the failure of the EU to organise gas sharing agreements between members, and to build interconnections.

The internal market policy, which seeks to create an integrated, open and competitive gas (and electricity) market in Europe, does not sit comfortably with the supply

security objective. Luciani focuses on this issue, detailing the dilemma and the contradictions involved. The solutions faced serious obstacles. The private sector will not willingly build interconnections where the return on investment is low or negative. To develop LNG regasification plants is a more promising option.

Luciani is puzzled by the EU Commission's decision to establish regulatory institutions with the power to mandate investments in gas inter-connectors. There are better ways to improve supply security without abandoning the need for even-handed approaches and transparent rules when supporting certain projects necessary for the diversification and a better distribution of supplies.

The fall in oil demand, particularly

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but not exclusively in the USA, is widely believed to be a major factor in the recent collapse of oil prices. Paul Horsnell and Costanza Jacazio's article is about the crucial role played by US oil demand behaviour in determining price movements. This is in contrast with the great crisis of 1986 where supply policies were critical. US oil demand has proved to be very sensitive to changes in economic conditions. There are big swings that defeated forecasters; errors in demand forecasts are very significant for the USA, the country that can be labeled 'the swing consumer'. Horsnell and Jacazio spell out the conditions required to change market sentiments later in 2009, and induce a price increase. One of these conditions is 'that the extreme sensitivity of US demand to the economic cycle is not echoed in future data for other OECD areas'.

The current oil situation challenges oil and gas corporations, both private and national. What are their worries and what should be their strategies? Ivan Sandrea who explores these issues is however more optimistic than many contemporary observers about the opportunities for investment in the long run and the ability of corporations to soldier on in a difficult economic environment.

Bassam Fattouh delves in the very difficult issues posed by the term structure of futures oil prices. In current oil market jargon, rather barbarisms, these issues relate to backwardation and contango, that is the signs of the spreads (or differentials) between the prices of futures contracts of different maturities. He observes that these spreads have been recently very volatile and subject to 'reinforcing dynamics'. This would have only been a curiosity if it didn't have significant impacts on 'the international pricing system, financial investment, inventories and OPEC's behaviour'.

The current oil price collapse crisis is the third significant one to have occurred in the past 22 years. The preceding ones, labeled counter shocks, marked oil history in 1986 and 1998. Horsnell and Jacazio made some comparisons between the 1986 and the 2008–9 events with reference to the different roles played by demand

in these two episodes. Incidentally, they revealed that the current crisis has already lasted three months longer than the traumatic 1986 instance. One is entitled to ask: and how much longer will it continue to prevail? A comparison of the 2008–9 oil price collapse and the crisis of 1998–9 will have to wait for the next issue of Forum.

The article by Axel Wietfeld and Niels Fenzl on LNG trading is not directly part of any of the two previous groups of papers. There are, however, some interesting relationships. LNG offers a part solution to the supply security problem of Europe addressed by Luciani; and the current oil and economic crisis cannot be without impact on gas developments. Looking at the long term the authors are reasonably optimistic about demand increases, greater price competitiveness, increasing significance of the spot market, and therefore diversification of markets and supplies.

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