

As oil prices began to rise above the \$90 per barrel level and came within a spitting distance of the magic \$100 number, increasing numbers of people are asking: Why? Paul Horsnell, in an article remarkable for its brilliant and original interpretation of oil prices determination, provides an answer. Oil prices are not like a cake made up of different layers, in this case premia for such things as geopolitical fears, financial speculation and so on. It is rather like a toddler who roams around trying to see how far it can go until somebody or some harsh reality stops him. So far the 'harsh realities' of supply and demand have not signalled any danger. And there is much more than that to think about in Paul's paper.

As usual, we have in this issue articles grouped under two broad themes. The chosen ones here are (a) the security of oil supplies, a problem that occupies many officials in many countries, and (b) the environment, a topic that concerns much broader audiences.

Paul Isbell identifies the threats to oil supplies, distinguishing genuine from bogus fears. He groups them according to the time horizons – short, medium and long term – over which they may arise, and he has sober views about the nature of various threats and the appropriate policies needed to deal with them. John Gault sees the gas supply issue from another angle, that of the apparent contradiction between two trends in Europe. One is the liberalisation of energy markets, and the other, the entry of foreign gas suppliers in Europe's downstream. The

first trend is meeting resistance from some Member States and the second is meeting obstacles from the EU itself. Gault believes that the two should be encouraged as they are not only complementary but both can increase supply security.

The security issue is of significant concern to the IEA and OPEC – that is to both importers and exporters of oil or gas. The authoritative views of these two major institutions are presented by top officials of the respective organisations, William Ramsay, the Deputy Executive Director of the IEA and Hassan Qabarzad, the second in command at the OPEC Secretariat.

The second set of articles tackles different aspects of the complex environmental issue. Measures to deal with climate change are being negotiated internationally, introduced nationally and endlessly discussed.

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Many involve burdens and costs to be carried by nations different from one another in a variety of ways. Some are poor and others rich. Some have contributed massively to the historical accumulation of CO₂ in the atmosphere, others did not in the past but are now significant polluters. What are the ethical issues that the distribution of burdens involves? Professor Simon Caney addresses this difficult issue with deep insights.

A specific ethical issue is raised by Benito Müller, that popularly known as the food miles question. Should we buy beans from Kenya or strawberries from South Africa if we are concerned about the environment? Flying the stuff over thousands of miles adds to emissions. If you want to know why the answer is enjoy the beans and the strawberries read Müller.

How can we curb emissions? The choice seems to be between measures that focus on prices (like carbon taxes) or on the volume of emissions (quantity caps which also enable trade between those who can reduce their emissions at lower costs than others). Robert Ritz compares both. In the perfect world of theoretical economics where there is full information available to everybody the two types of measure would yield equivalent results. We mercifully live in an imperfect world; life would be exceedingly boring otherwise. The two types of measures need therefore to co-exist leaving to the long term the task of operating a convergence.

There is actually an emission cap and trade scheme in operation in Europe since January 2005. It is the EU Emission Trading Schemes (EU ETS) which Paul Newman defends while recognising certain flaws that, he argues, are likely to be removed in the second stage. The first stage was a test bed. It is unfortunate that it involved a sudden price collapse in May that caused a loss of confidence. But traders recover quickly from such shocks, and it is not difficult to understand that they prefer getting on with trading than being burdened by taxes.

A critical question for international cooperation on climate change is whether China, India and Korea will accept treaty defined emission caps. Meetings in Bali in December 2007, the last before the Kyoto Protocol comes into force on January

1, will centre on caps for the second period starting in 2013. Liz Bossley argues that Non-Annex 1 countries which have not agreed to caps have nevertheless contributed to efforts to mitigate climate change. She suggests that a good solution is for a number of Non-Annex 1 countries to introduce domestic emissions trading schemes outside UN control but to date Kyoto and other allowances are not interchangeable.

Forum has always been intended to be a debating journal. We are very happy to have a letter from Paul Newman on the Middle East sour crude contracts, and an important addition to views expressed in *Forum* 70 on the access to oil reserves issue contributed by Robert Dudley.

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