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Major events with significant implications for energy have recently obtained on the world stage. The most recent is the series of nuclear accidents in Japan. One question is whether these accidents were caused by problems that can be easily remedied or they arise because of some fundamental flaws characteristic, perhaps, of nuclear. Will these accidents kill (or at least seriously affect) a cherished idea about fuel substitution – the demise of oil in favour of non-hydrocarbon energy sources. It is difficult to see how the trade-off between 'dirty oil' and 'dangerous nuclear' is assessed. But most of those afflicted by the disease known as petro-phobia have such an absolute view about the polluting impact of oil that the assessment cannot be made. What is conceived as absolute is not subject, by definition, to any trade-off as these involve relativities.

This event is so recent that its analysis and correct interpretation will have to await a future issue of *Forum.* Closer to us in time are political developments in the Arab World. Although most of the current regimes are still in existence, so are the powerful forces that support them. Yet, something fundamental has changed. A number of old assumptions about the political passivity of Arab populations have been proven to be wrong. Most governments are faced with protests. In some cases their citizens are calling for the demise of existing political regimes. These are surviving by instilling fear through repression. But there is a cost to this approach. The more repressive present political regimes become, the greater the loss of their legitimacy and the shorter will be the length of their eventual survival.

We are at the beginning of a process of political liberalisation that may take years to impose itself; but the dice is already rolling.

All that is bound to change the world energy scene in ways that cannot be fully predicted yet. Oil nationalism is likely to become a more powerful force, mitigated however by the need to protect or even increase the flow of oil revenues. It is important to recall that revenues are a function of both volume and prices. A loss of volumes may be compensated by a more than proportional increase in prices. History involves events that provide evidence in support of this point. What is certain, however, is

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that inevitable changes will occur and provide much food for thought in the years ahead.

In this issue we focus on topics that may throw light now and in the future on what is likely to happen. We publish the report on discussions at the Oil Day (28 January 2011) organised by the Oxford Institute for Energy Studies (OIES). The debates on that day raised important questions about regulations actual, or likely to be introduced in the near future. Financial structures now play a significant role in the pricing of oil in international trade. A fundamental question is: what are the linkages between these financial structures and the physical forces of supply and demand that determine, in principle, oil prices.

Oil, like some other important commodities has been ‘financialised’. Does this new characteristic that reveals the force with which the financial sector is entering many other sectors of economic activity, reduce the significance of physical supply and demand in processes of oil price determination? The answer may be ‘Yes’. This would be very worrying because the entry of exogenous factors in the determination of oil prices would deprive these prices of their main, and most valuable, function which is to signal relative scarcities.

Benchmarks are used, but the question is whether these Benchmarks (WTI for example) correctly reflect actual market conditions. In any case, the prices used are generally those reported (or more frequently assessed) by agencies such as Platts or Argus. There may be discrepancies between these assessments and actual prices, which for all their actuality, are not seen.

There is much substance in this report that readers will find of great interest.

Also in this issue we have three articles relating to OPEC. Walid Khadduri, a veteran of OPEC’s watchers and commentators, assesses the significant challenges that OPEC may face in both the immediate future and the long run.

One of those is the possible considerable increase in Iraq’s oil production in the next five to ten years. Iraq has huge natural petroleum reserves and is intending to develop them, security factors permitting. If this happens OPEC will face problems with agreements on production quotas. There is also, of course, the environmental challenge that may in the end drastically reduce world oil consumption.

The risks that the present currency war results in a trade war need to be considered; finally there is, last but not least, the issue of political instability in the Middle East which could have oil implications. The recent bombing of oil installations in Libya is a case in point.

Venezuela is the object of the next two articles, one by Bernard Mommer and the other by Juan Carlos Boué. Venezuela tends to be ignored in current oil writings. This is unfortunate not only because it has for a long time played an important role in oil affairs and in the foundation of OPEC, but because a Venezuelan case-study sheds light on several important oil developments.

Let us recall that the oil price collapse of 1998 had much to do with Venezuela’s oil policies pursued at the time, and the following price recovery to the election of Hugo Chavez to the presidency.

We are very lucky to have with our two authors very knowledgeable and competent analysts of Venezuela oil and political history.

This is the last issue of Forum that I will be editing. The next issue will benefit from the expertise of Dr Bassam Fatouh in oil and Middle Eastern affairs. Letters from readers will as always be welcome to widen the debates on the many important and interesting issues of the day.

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