

# Oxford

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**Can we expect an energy crisis with serious economic, social and, inevitably, political consequences to hit the world sometime in the foreseeable future? Governments of OECD countries and some developing nations appear to be increasingly worried about such possibilities. Witness the recent publications of reports on energy strategy, reviews of energy policies and other official documents emanating from the EU, the UK, France, Japan and several from the USA.**

There are many dimensions to the energy problem which policy makers seek to address.

First, there is the security of oil and gas supplies, a particular concern of countries dependent on imports. While international trade is hailed as an engine of economic growth and a provider of welfare, importing fuels causes worries on the grounds that many exporting countries are vulnerable to disruptive political events.

Energy supply disruptions can also be caused by technical accidents or constraints on production and transport facilities due to insufficient investment in capacity or lack of careful maintenance. This does not only affect oil and gas supplies internationally but electricity generated and transmitted domestically.

Secondly, the impact of carbon emissions on the climate from burning fossil fuels raises difficult

questions about fuel choice and a broad range of policies for dealing with carbon.

Thirdly, there is the possibility that in the long run oil and gas, both depletable resources, will become increasingly scarce and lead to final production peaks. How can one cope with this eventuality?

We have here four contributions which selectively treat a few aspects of this vast subject. John Mitchell discusses the EU strategy. The security of electricity supplies calls for investments but there is no clarity about the fuels that should be chosen for the new capacities in generation. He argues cogently that fears about import dependence and the use of oil or gas as a political weapon are exaggerated. The international oil market is both open and flexible and as such offers much protection. This is not yet the case for gas however.

Tera Allas argues that reliance on

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market forces which is central to the UK approach is sensible and effective. She recognises that markets suffer from imperfections which need government attention but do not justify heavy intervention or public sector investments.

A contrary view relating to one energy – oil and gas production in the North Sea – is proposed by Peter Odell. He laments that the full production potential of the UKCS is not realised, largely because oil companies seek a high rate of return on their investments and are burdened with heavy taxes. His proposal is a private/public partnership scheme in which both companies and the government will invest together. As government requires a much lower rate of return than private companies, more money will go into the development of fields pushing the production boundary higher on the rising marginal cost curve. An idea which calls for discussion and debate, for which the columns of this journal are open to our reader.

Olivier Appert presents an overview of French energy policy reminding us that France's concerns with security go back several decades. There was recently a dramatic change in this approach, a shift from considerable reliance on public sector ownership and wide-ranging government intervention to privatisation and liberalisation. Policies are in place however to encourage investment in energy efficiency and renewables and promote R&D.

The second group of articles is composed of two contributions, one by David Fridley and the second by Benito Müller. They illustrate how a number of US states (California and a group of North Eastern ones) are introducing environmental policies that imply a very different position than that held by the Federal government. The interesting question is whether progress on environmental questions at the state level will gain enough momentum to induce a fundamental change of attitude in Washington.

This issue also includes one article on a different topic. Joe Stanislaw shows that serious challenges were already facing the world thirty years ago and little was done to address them. He asks whether we are going to waste another thirty years not doing enough to reduce dependence on

hydrocarbons for both environmental and supply considerations. He advocates strong and continuous action and international cooperation between countries, a necessary condition for effectiveness of policies in a global world.

Adrián Lajous has a contribution to the rubric labelled personal commentary, where personalities of the energy world relate their experience of a significant event. Adrián with the PEMEX CEO and three other colleagues were in September 1985 at the Oxford Energy Seminar when Sheikh Yamani announced that Saudi Arabia will cease to play the swing producer role. The net-back pricing system was introduced. Adrian and his colleague Pedro Haas realised that this was the declaration of a price war. They set up a team of experts who developed the pricing formula system which Mexico introduced in 1986 and has been widely adopted ever since.

## Contributors to this issue

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