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Welcome to *Climate of Opinion* – Helen Disney and Paul Domjan[1]

Welcome to the seventh edition of the Stockholm Network's energy and environmental affairs newsletter, *Climate of Opinion*. This month, we are taking a look at OPEC – its impact on Europe, the economic challenges facing OPEC countries, the scope for more secure supply levels, and the possibility of a gas OPEC.

If you have any comments or recommendations about *Climate of Opinion*, or would be interested in contributing an article for a future edition, please contact Helen Davison at helend@stockholm-network.org.

We hope you enjoy this newsletter.

Why Should Europe Care About OPEC? – Gulya Isyanova[2]

We could be forgiven for thinking that OPEC's impact on Europe only goes as far as its role in setting the oil price by controlling the amount of oil on the international market. Concurrently, we could perceive Europe's preoccupation and concerns with Russia's growing role as a supplier of Europe's energy needs, as well as its need to embrace and embed climate mitigation policies, as far more important matters. On both of those counts we would be mistaken. In fact, OPEC's role in influencing the price of oil has a direct and drastic impact on both of Europe's key preoccupations.

Why OPEC matters with respect to Russia

As has become evident over the last few years, by swelling state coffers, high energy prices have made Russia more confident and even belligerent on the international scene. Although gas constitutes most of Russia's energy exports to Europe (approximately 68% of European gas imports come from the Former Soviet Union), gas prices are directly indexed to the price of oil which OPEC controls. The high oil prices OPEC aims for therefore increase Russia's international clout.

With regards to Europe, this bullishness has manifested itself through a variety of issues such as Kosovo, but none more so than through its energy relationship with Europe. Russia wants its proportion of exports to Europe to grow by creating an 'energy ring' binding Russia to Europe with the Nord Stream and South Stream projects. Deals have just been signed with Bulgaria and Serbia to take this goal one step closer to realisation. Europe, on the other hand, wants this proportion to diminish. In this battle of wills, high energy prices have given Russia enough leverage to make this a battle of equals.

Another concern for Europe regarding Russia is the possibility of its cooperation with OPEC; a move that would not be without precedent. Indeed, the two have worked together in the past in order to boost the price of oil (and thereby gas) in the 1990s, when in the aftermath of the Gulf War and later the Asian financial crisis, oil prices fell to their lowest since the 1970s. The strategy of cooperation worked; by colluding to keep production low, oil prices started to go up, setting them on an on-going ascent. If the two parties increased their cooperation now, Europe's main suppliers of both oil and gas could realistically engage in collusion against Europe, as well as the rest of the developed world.

This is especially worrying in the short-term. Despite the progress made in green technology and green fuels, most of these remain uncompetitive. Moreover, an outright switch would be near-impossible and require major infrastructural changes. Oil accounts for 95% of all fuels currently used in transport. The trick from OPEC and Russia's perspective would be to keep prices high enough to have major profits but not so high as to push the consuming countries towards a concerted shift away from fossil fuels.

Finally, it would seem that having taken into account the mostly successful strategy behind OPEC, there appear to be rumblings that a gas-

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[2] Gulya Isyanova is a researcher at the Stockholm Network.

OPEC might be on the cards. Were this to materialise, Europe would have to deal with two cartels.

Why OPEC matters with respect to climate change

The issue of climate change and OPEC is complex, with a number of possible developments – positive and negative – that might affect Europe. High oil prices are making green technologies increasingly competitive. Hence, progress in this sector, as well as the commercialisation of some technologies, is accelerating, representing a potential substantial loss of revenue for OPEC in the long term.

However, there could be scope for mutual advantage. An outright switch from fossil fuels is still a long way off. Therefore Europe and OPEC could cooperate in applying clean technologies to fossil fuels, e.g. carbon storage & sequestration (CCS). On the other hand, at least in the short-term, the two parties are ultimately at odds on this issue. The economies of the OPEC members are largely undiversified and most of their income derives from the sale of oil. There would be some advantage therefore, for OPEC to join forces with other developing countries (despite the fact that the others are consuming countries) in pressuring the developed world for more leeway in climate adaptation measures, such as using a higher proportion of renewable energy. Like the other developing countries, OPEC members could argue that they need less stringent measures in order to develop properly and fairly. This is something they tried to do in the 1970s with the call for a New International Economic Order; a set of proposals for improving the position of developing countries in the global economic system.

Three possible developments stem from this. In the first scenario, as part of opposing developed/developing blocs, Europe and OPEC could be involved in a negotiating stand-off.

In the second scenario, OPEC might realise that the tide has indeed turned globally with respect to climate change, and cooperate with the developed world on clean technologies. There is a further benefit for OPEC in this respect. If the developed world converts to green technologies, it will effectively signal that it accepts higher energy-use costs. Therefore, OPEC will be able to maintain high oil prices and reap the financial rewards until the oil runs out.

In the final scenario, OPEC could refuse to engage with Europe and the rest of the developed world. In the short-term it would make enormous profits. In the long-term, however, its members would suffer two-fold.

First, demand for oil will eventually fall as Europe implements clean energy technologies, thereby taking away their principal source of profits. Unless these countries make a concerted effort to diversify – and the current signs are not good – they will lose their incomes.

Second, the infrastructure of OPEC's members will be undeveloped with respect to new fuels and new technologies and will find itself in the unenviable position of having to catch up very quickly and very expensively. This last scenario would be of major concern to Europe for security as well as humanitarian reasons. The revenues of OPEC countries would be greatly diminished, energy industries would stagnate and large numbers of the population would fall into further poverty potentially leading to social and political unrest.

What OPEC thinks, does, prefers and fears thus has a major impact on Europe. If Europe is indeed concerned about both Russia and climate change, it should pursue a constructive engagement with the cartel, emphasising the benefits that cooperation would bring, especially with regards to climate change.

Economic Challenges for OPEC Members[1] – Rachel Ziemba[2]

With oil averaging over $71 a barrel in 2007, the windfall for oil exporters has been immense, nearing one trillion last year. Since 2002, OPEC countries have used this windfall to improve their economic position, paying off external and domestic debt incurred in the 1980s and 90s and saving most of the proceeds. For the most part, these savings have provided a substitute for domestic investment but even those countries that saved less are starting to invest in human and physical capital.

Indeed, all OPEC members are now spending more. As much as 2/3 of new hydrocarbon revenue is now spent either on imports or more domestic spending, up from about a half of new revenue in 2002-2005. In 2007, spending growth outstripped revenues in the Gulf Cooperation Council (GCC), for the first time and 2008 budget plans imply even higher spending on both current spending (wages and subsidies) and capital spending.

OPEC's need for continued high oil revenues

As a result, many oil exporters have become increasingly dependent on a high oil price to sustain their economic and social policy and pay for imports (including labour). While most analysts project a continuation of strong oil prices, lower global growth could decrease demand and depress oil prices and revenue flows. Iran, Nigeria, Venezuela and some GCC countries would find it difficult to balance their budgets and pay for current import growth with an oil price of $50 a barrel – perhaps tapping their reserves and stabilization funds. If trends continue, the pace of import growth would erode much of OPEC's net external surplus by 2010.

Moreover, energy consumption is accelerating in most OPEC members, restricting net exports. Subsidies have kept gas cheap and growth in demand for oil products is now rivalling China's. Countries like Iran and Nigeria that lack sufficient domestic refinery capacity incur greater costs as they must import refined products, while others just forego lost revenue. Many oil exporters including those in the Gulf, North Africa and Russia are weighing the costs of nuclear power to reduce their reliance on hydrocarbons to stem the fall in net exports.

The challenges of the dollar peg and diversification…

Reliant on a dollar stream of income and seeking stability, several OPEC members, especially in the GCC pegged their currencies to the dollar. Others have been almost as reluctant to let their currencies appreciate, fearing loss of competitiveness from their non-oil sector. Conversely, in the late 1990s, rising US interest rates and a strong dollar weighed on the economies of dollar peggers. Pegging to the dollar brought stability but at a cost, eliminating independent monetary policy. With the Fed easing, importing US monetary policy and a falling dollar, which boosts the costs of imported goods from Europe and Asia in local currency terms, have added to inflationary pressures. For the EU in particular, increased demand from OPEC (and oil exporters in the former CIS) has helped to offset the costs of more expensive oil, broadening the sources of global growth in 2006-2007.

…through other currencies…

The rising cost of imports may influence OPEC production decisions. Last summer, OPEC noted that rising inflation and a weaker dollar depressed the price of the OPEC basket from that of a year before. With growing spending demands, OPEC

[1] This work draws on more detailed analysis of sovereign wealth funds and the economic policies of oil exporters including Ziemba (2007) *Adjusting to higher oil prices: Petrodollars and Spending Rises in the GCC, Iran and Other Oil Exporters*, Brad Setser and Rachel Ziemba (2008) *Understanding the New Financial Superpower - The Management of GCC Official Foreign Assets* and Ziemba (2007) *Responses to Sovereign Investors: Are Draconian Measures on the Way?* which are available from rgemonitor.com

[2] Rachel Ziemba is an Economic Analyst at RGE Monitor, an online financial information service.

members could implicitly target an oil price in euros. Alternatively, analysts suggest that the most expensive oil supplies (accounting for perhaps 5% of production) are setting the price. Either way, OPEC members (and other oil exporters) have become accustomed to higher prices and plans to increase capacity seem to be facing delays and higher costs.

Most OPEC currencies have fallen in real terms since 2000 with some GCC countries falling by as much as 20%. By contrast, Norway, Canada (and for a time, Russia) have had real appreciation, increasing purchasing power dramatically. But for others, inflation is the only channel for adjustment, albeit a politically costly one. Inflation rates are accelerating - nearing 20% in Qatar, Venezuela and (likely) the United Arab Emirates (UAE) in 2007 - as booming economies encounter supply constraints including labour, rents and food costs. Even Saudi Arabia, home of 'extremely low inflation' reported a rate of 5.3% in December.

Although the rest of the GCC has yet to follow Kuwait in revaluing against the dollar or shifting to a basket peg as it did in May 2007, pressure (in the form of speculative inflows betting on a revaluation) is mounting. Other oil exporters also face such pressure. Yet, policy makers may be deterred for fear of encouraging further appreciation expectations. The remaining GCC countries seem reluctant to move independently, still holding to plans for a GCC monetary union in 2010. As a result, slight revaluations seem more likely than outright de-pegging in the near term. But continued US monetary easing and a falling dollar might make the pegs untenable, as the political costs of inflation grow. Like Kuwait (where the dollar is thought to make up 70% of the basket), the dollar might continue to dominate any currency peg given the dollar-based revenue flows, close security ties to the US and large stockpiles of US assets.

Venezuela and Iran have suggested that OPEC reduce the use of the dollar – a key division among OPEC members at November's policy meeting. However, it is not pricing, but demand for the currency for trade and saving purposes, that matters. Already many transactions with EU countries are in euros. All it takes is for an exporter to demand payment in another currency – as Iran is already doing.

In mid-2007, Iran reported that, at its request, its customers in the EU and Asia had switched to other currencies to settle their oil tabs. Sanctions and restrictions on Iran's dollar accounts (even in European banks) sped up its shift from the dollar. More use of the euro in savings and transactions would boost the euro against the dollar (and the yen).

…and sovereign wealth funds…

As for savings, some diversification is already underway. Many OPEC members have cut the dollar share of their portfolio in favour of the euro and pound (and increasingly in favour of emerging markets assets). The dollar share of the Qatar and Kuwait Investment funds may be as low as 40%. The central banks of Iran and Venezuela have significantly cut dollar holdings – likely in favour of euros. Yet OPEC Sovereign funds, central banks and state owned enterprises maintain significant US assets and current dollar weakness may make US corporate valuations seem more affordable. Furthermore, high (dollar) reserve accumulation to counter speculative inflows likely offset diversification by GCC sovereign funds in 2007. In the medium term a shift away from the dollar should support European and emerging market currencies.

Since the oil boom began, most oil exporters have chosen to save the bulk of their revenue rather than allow (much) domestic spending which could be inflationary and difficult to reverse. Despite higher domestic spending, the funds are expanding rapidly – GCC funds manage about $1 trillion – or more than a third of the official foreign assets of oil exporters. Now as savings pile up beyond levels needed to stabilize volatile revenue flows, some countries are entrusting more money to sovereign wealth funds with their greater exposure to riskier assets. These funds may also be vehicles to develop key sectors through joint venture. New or proposed funds include those of Libya, Saudi Arabia, Nigeria may join the funds of the GCC. Among non-OPEC oil exporters, Norway, Azerbaijan, Kazakhstan and Russia also have funds – albeit with a more passive investment strategy.

…which bring their own challenges…

The sheer size of these funds – Abu Dhabi Investment Authority (ADIA) alone likely manages assets greater than 1% of global market capitalisation – and their ability to move markets increases the urgency of crafting responses to sovereign funds. Although sovereign funds have been key investors for some time in a range of asset classes, they really caught the attention in 2007 accounting for several high profile deals when the capital markets deteriorated. It is however, harder to push sovereign funds to be more transparent and disclose strategy when they are the go-to source for distressed financial institutions.

That these foreign governments tend not to be democratic and tend to control capital inflows poses a special set of concerns even if funds are driven by commercial purposes. Although the investment authorities have the mandate to save funds for the nation, the public tends not to have oversight and the line between the assets of the ruling families and those of the state is muddy. Several regulatory issues loom; would co-investment with state owned enterprises encourage riskier investments requiring bailouts? Would sovereign funds share information with other state companies? In some countries the fund manager is closely tied to the regulator which poses a challenge for counterparties. Yet their portfolio shifts might not be any more destabilising than those of private capital.

Sovereign wealth funds (SWFs) point to their track record as long-term stabilising investors and wonder why they are receiving more scrutiny than opaque private capital sources like private equity. Taking a lesson from Dubai Ports World and Unocal, funds have not insisted on a management role with recent purchases, which fall short of disclosure limits and avoid sensitive sectors. Yet influence is not limited to an official management role and abdicating voting rights might actually weaken the power of other activist investors and introduce inefficiencies.

Despite some pragmatic responses, as the scale of capital injections increases, so will political concern in Washington and throughout European capitals. In Europe, a key policy divide is emerging, with the UK being the most welcoming to sovereign funds, after all, the City of London has established itself as a key petrodollar recycling hub, while France and Germany are more cautious, particularly of the prospect of a foreign government controlling a privatised utility (a form of reverse nationalisation). The IMF and OECD have been tasked with developing a code of conduct for sovereign funds and many national governments are reassessing their policies.

Policy options under discussion include heightened FDI review, restricting stake size and demands for reciprocity i.e. for SWF sponsors to allow foreign investment. However, some analysts worry that concerns about a few funds or SOEs are being used to justify restrictions. The emergence of new funds and the willingness of some long standing funds to take larger stakes require policy responses tailored to the different sovereign investors and part of an engagement with OPEC countries to promote growth and development domestically. And it must be remembered that as large as sovereign funds are, they manage only a small part of total financial assets – perhaps 2% – making arguments of a broad-based 'SWF put' that would boost equities and riskier assets seem a bit overly optimistic.

Conclusion

How OPEC members respond to the economic challenges of the weak dollar, high inflation and asset protectionism will determine their domestic and foreign investment patterns, and their ability to put their economies on sustainable growth paths. These choices are important. Indeed; with OPEC accounting for over a third of oil output and a higher share of new reserves they will drive global energy markets especially in so far as they influence infrastructure investment.

Can More Consistent Supply Levels Be Guaranteed by 'Oil-Free Nationalism' in OPEC Countries? – Amy Clarke[1]

One lesson learnt by observers of energy security during 2007 is that international and domestic demand levels for energy, even in countries with good growth rates and consistent supply patterns, is not always met. One of the greatest risks to the consistent supply of energy in 2008, and especially for OPEC countries, is likely to be the increasing politicisation of oil production in countries that see themselves as wrestling their way out of US and western domination.

In terms of more overt security risks to oil and gas supply, the past year has demonstrated that the majority of governments, apart perhaps from in Iraq and Nigeria, can enable normal levels of supply of oil and gas very quickly after an attack or another interruption. Even in Mexico, a non-OPEC country, where 2007 saw a previously dormant revolutionary group attack assets belonging to state-oil company PEMEX - a company notoriously slow and bureaucratic in response to business interruption matters - the security risks to supply in 2008 will be mitigated by an administration that wants to improve the competitiveness of oil exploration and supply in the country. The Calderon administration's plans to break down the monopoly of PEMEX will maintain good supply levels in spite of the potential targeting of pipelines and energy infrastructure by the EPR (Popular Revolutionary Army).

And this is what sets Mexico apart from some of the other oil-rich countries and from OPEC's Latin American players; Venezuela and Ecuador. In spite of a whole year of rhetoric inspiring national unity from the Calderon government, the Mexican national-psyche does not include oil as a key component in the way that the national-psyches in Ecuador and Venezuela do. In Mexico, it is an 'oil-free nationalism'. More competitive policies and the encouragement of diverse investors in the energy sector can, to a large extent, mitigate security risks of terrorist attack or political violence. 'Oil-free nationalism' where host governments loudly emphasise political and national unity while keeping their tendencies towards economic nationalism away from oil and gas sectors will be the direction that many of the OPEC countries will be looking to take in 2008.

Even where over ground security risks against oil installations and personnel are substantial, as in Iraq and Nigeria, the returns from investing in countries without overtly hostile policy regimes (such as those in Venezuela, Iran and Nicaragua for example) will continue to make it worthwhile for many multinational players in oil. Iraq and Nigeria that both experienced high level security risks to assets and personnel during 2007 have proved that the tipping-point in terms of security risks that make investors decide to reduce or eliminate exposure in any one country, is more difficult to reach than the equivalent tipping-point for economic nationalism risks. Even in Argentina over the latter half of 2007, more economically nationalist policies such as price controls and tax-hikes caused long-term investors in oil in that country, such as Exxon Mobil and Repsol, to reduce their exposures (Repsol announced a sale of 25% of its subsidiary in Argentina at the beginning of 2008).

This, in turn, threatens supply levels as pressure is put on the remaining producers to meet domestic demand. A policy regime need involve only nascent elements of economic nationalism to push energy investors out and cause significant domestic supply problems.

The past year indicates that in terms of economic nationalism there is something of a spectrum along which the global players in oil supply sit. Governments of Iran and Venezuela sit at one end of the spectrum – understanding oil to be an inseparable part of their national identity. During 2007, these countries actively engaged in collaborative agreements over explorations in Nicaragua and Syria in an attempt to counterweight the power of the US and to assert their status as global players in international economic policy. And other countries like Mexico and Indonesia sit at the other end of the

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spectrum where the concept of national unity is separate from the country's oil wealth.

During 2008 OPEC countries will be looking to balance the need to inspire national unity, with the recognition that supply levels need to be maintained. The collaborative part of the OPEC cartel will partially determine supply levels thorough price-setting, but it will be the individual countries themselves that determine, through limiting hostility of policy programmes towards oil and gas investors, the consistency of supply levels in the medium and longer term.

A Gas Cartel: Lessons from OPEC – Matt Stone[1]

In markets where cartelisation is attractive, a basic prescription prevails: an oligopolistic market structure, low marginal costs, excess capacity and a relatively undifferentiated product result in price wars. The battle for market share takes precedence over the aggregate profitability of the industry, a classic prisoner's dilemma. The oil market – from the Gulf-plus pricing system of the Seven Sisters to OPEC's production rationing today – has been a case study in avoiding the pitfalls of this inherent nature. Indeed, as Francisco Parra, a former OPEC Secretary General once wrote;

> "The history of the international petroleum industry is marked by attempts to restrict supply and maintain high prices."[2]

Alas, so goes the natural gas market. The vision of a global gas market – one that could be influenced by a gas cartel – has not yet been realized, but momentum is on its side. The two main impediments to the growth of gas are being worn away.

First, the cost of gas liquefaction and transportation is falling. This expands the geographical reach of gas supplies and opens up new customer classes.

Second, a viable spot market is developing. As OECD governments liberalise their downstream gas markets, hundreds of new buyers are building relationships with gas suppliers. Liberalisation has created a market in which many small buyers are avoiding long-term contracts and instead opting for the cheapest gas to be found on spot markets. Short-term and spot sales for liquefied natural gas (LNG), while still small at 8.9% of global LNG trade in 2003, have been growing (up from 1.5% in 1997)[3]. New LNG projects may still need the volume risk to be borne by buyers in long-term take-or-pay contracts, but a growing number of old LNG trains are looking to sell to the highest bidder on the spot market.

Gradually the regional gas markets are giving way to a more robust and competitive global gas market, one that will take the next couple decades to fully develop. But a competitive gas market, by its very nature, will also be subject to the destructive urge of producers to cut prices and increase market share, leading to the self-reinforcing spiral that is a price war. Some form of upstream horizontal integration – cooperation between producers or perhaps even cartelisation – is the natural response and should be expected.

However, it would be inappropriate to assume that a gas cartel would look or act like OPEC. While the basic economics are similar, the political realities are far different.

OPEC was created as a political response to a commercial reality. Due to a weak oil market in the late 1950s, the oil concessionaires throughout the Middle East and elsewhere cut the posted prices from which taxes were calculated. The future OPEC member governments cried tax evasion and OPEC was established to force the concessionaires to reinstate the original posted prices. The organisation was not intended to be the cartel that we know today.

[1] Matt Stone is a post-graduate student at the Centre for Energy, Petroleum and Mineral Law & Policy, University of Dundee.
[2] Francisco Parra, *Oil Politics: A Modern History of Petroleum* (New York: I.B. Tauris & Co., 2004) 89
[3] James T. Jensen, *The Development of a Global LNG Market* (Oxford: Oxford University Press, 2004) 34.

But OPEC learnt an important economic lesson: by cooperating they could extract a greater share of the resource rent. First, it was negotiating tax hikes on the concessionaires. Then it was nationalisation of their domestic oil industries. Finally, it was figuring out how to control the global oil market, first through government-sponsored prices, then through production quotas.

These lessons will not be lost on a potential gas cartel. Whereas OPEC was created as a political response to a commercial reality, a gas cartel would be a commercial response to an economic reality – a form of horizontal integration necessary to avoid the dangers of price wars.

A gas cartel would surely trust the spot market from the start. To detect and prevent cheating, long-term take-or-pay contracts, the negotiations over which are highly secretive, are an inappropriate instrument. Large-volume, long-term sales would lead to secret bargaining, undermining cartel discipline. [1]

A global spot market presupposes a global price for gas, which will develop as more suppliers and buyers get involved. A global price is good for Europe, where Russia's Gazprom exercises market power and is able to export at a price significantly above long-run marginal costs. Indeed, as a global price develops, it would be natural for Russia to pursue cartelisation as a way of recapturing its diluted market power in Europe.

A gas cartel would also designate a swing supplier – probably Russia – that could credibly threaten to flood the market to punish cheaters, something that took OPEC until 1986 to learn.[2]

A gas cartel, however, would be less successful than OPEC because the uses of oil and gas are very different. Research shows that in the OECD economies the demand for gasoline, a product derived from oil, has become more inelastic – that is, less responsive to price – over the past decades as reliance on its use as a transport fuel grew.[3] Indeed, oil faces a range of relatively uneconomic (and energy inefficient) medium-term substitutes, thus further entrenching its position as the backbone of the transportation sector.

The breakdown of demand for natural gas in the OECD economies, on the other hand, illustrates the range of economic substitutes it faces. Only marginal in the transportation sector, natural gas is mostly used for electricity generation and industrial purposes. In both sectors, economic substitutes include coal and petroleum products like fuel oil.

Because of this substitutability, demand for natural gas is much more responsive to price moves than oil. This fact should give pause to gas-producing nations as the act – perhaps even a credible threat – of cartelisation might quickly kill the goose that lays the golden eggs. Supernormal profit from cartel behaviour will be much harder to generate than in oil markets.

The long-run view then is ambiguous. As a global gas market develops, some form of horizontal integration would be sensible for producers to avoid the cut-throat competition that plagues most commodity resource industries. But

[1] This reality also makes it difficult for gas producers to collude in the European market. In 2006, Algeria's Sonatrach and Russia's Gazprom signed a general memorandum of understanding, exacerbating fears that the two gas exporters would collude to raise prices on European consumers. But given a robust gas transportation infrastructure, price collusion between the two companies would be difficult, because each has an incentive to sell below any 'agreed' price to win a long-term gas-supply contract. Disciplining the cheater would be nearly impossible.

[2] It should be noted that in the presence of a global market for LNG, the price of pipeline-gas would be indexed to the LNG spot price, not the other way around. For Russia to act as a credible swing supplier, it will need additional LNG export infrastructure. Otherwise, flooding the European pipeline-gas market will only depress the price of European pipeline-gas (assuming inability to re-export) and barely dent the LNG price in world markets, thus failing to punish or deter cartel cheaters.

[3] Hughes J., Knittel C., and Sperling D., *Evidence of a Shift in the Short-Run Price Elasticity of Gasoline Demand* NBER Working Paper No. 12530 (2006)

outright cartelisation in the mould of OPEC might not be possible. Whatever type of horizontal integration does prevail, artificially inflated prices would promote the development of gas resources elsewhere, much like the first and second oil shocks helped North Sea oil become economic. That would be a development all OECD governments can cheer.

Microclimates – Top Stories in Energy and Environment

Gas Exporting Countries Forum Goes Ga-Ga for Gas OPEC

Member states are said to be planning to convert the Forum into a formal body akin to OPEC. Iran floated the idea last year and it has subsequently picked up momentum, most notably in Russia. The issue is expected to be discussed at the Forum's 7th summit taking place in Moscow this June.

http://www.kommersant.com/p845025/hydrocarbon_sales/ (English)

http://www.kommersant.ru/doc.aspx?DocsID=845025&NodesID=5 (Russian)

Food For Thought

The EU's environment chief admitted that the EU did not foresee the problems raised by its policy to get 10% of Europe's road fuels from plants. Over the last few months there has been mounting criticism of the phenomenon, with higher food prices, higher CO2 emissions and rainforest degradation being blamed on the rush to grow biofuel crops.

http://news.bbc.co.uk/1/hi/world/europe/7186380.stm

Nuclear Gets Go-Ahead

The UK government ended months of speculation by formally backing a new generation of nuclear power stations earlier this month. It insisted that public money would only be used in case of an emergency.

http://news.bbc.co.uk/1/hi/uk_politics/7179579.stm

Double…

Earlier this month, Npower, EDF and British Gas hiked their electricity and gas prices by double digits. Lower supplies, higher energy prices on world markets and the impact of green measures have all been blamed.

http://www.telegraph.co.uk/news/main.jhtml?xml=/news/2008/01/18/ngas213.xml

…Trouble

However, many consumers have blamed the UK's biggest energy companies for colluding in an attempt to stifle competition and make record profits. There is as yet no evidence of anti-competitive behaviour but claims are being examined by Ofgem.

http://www.timesonline.co.uk/tol/news/uk/article3177612.ece

Arnie Terminates His Patience with the EPA

California is suing the US federal government, in an attempt to force car makers to conform to tougher cuts in greenhouse gas emissions. It has accused the Environmental Protection Agency of doing nothing to curb emissions. California could be joined by 15 other states.

http://news.bbc.co.uk/1/hi/world/americas/7169200.stm

EU's New Green Era

The EU has announced a range of sweeping measures which aim to tackle greenhouse gas

emissions and to substantially increase the proportion of renewable energy use.

http://www.ft.com/cms/s/0/5ab22e5a-c9ae-11dc-b5dc-000077b07658.html

Driving Up Pollution

Environmentalists fear that the Tata Group's 'Peoples' Car' will go a long way towards increasing carbon emissions to critical levels, as middle classes in India and the rest of the developing world are expected to embrace it with gusto.

http://www.ft.com/cms/s/0/9e648abc-be6e-11dc-8c61-0000779fd2ac.html