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Security of Energy Considering its Uncertainty, Risks and Economic implications



SEVENTH FRAMEWORK PROGRAMME

Securing European Oil Supplies

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Potential Threats to Security of Oil Supplies

- Resource Nationalism
- Political Instability
- Export restrictions:
 - Export taxes
 - Domestic pricing
- Armed conflict:
 - Interstate War
 - Civil (Intrastate) Wars
 - Violent Non-State Actors


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Conclusions on Resource Nationalism and Political Instability

- The discussion and analysis conducted in the project has shown that there is no easy and immediate connection between resource nationalism and/or political instability, and global supply of oil and gas.
- This is not because political developments are irrelevant for influencing oil and gas supplies, but because this influence is highly variable and unpredictable.
- Political instability and resource nationalism have been shown to have rarely been associated to acute supply crises or shortfalls. Their effect is rather gradual and normally compensated by action in other parts of the system.

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Policy Implications

- Financial instability, negative returns on financial assets and protectionism against the oil producing countries' industrial exports all contribute to supporting the view that it is best to keep oil and/or gas in the ground.
- Adoption of aggressive policies aimed at decarbonisation and energy efficiency may have an ambivalent effect; policy objectives which cannot realistically be reached should be abandoned, and cooperation and pragmatism emphasised.


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Conclusions on Armed Conflicts

- Oil and gas installations appear to be much more resilient to armed conflict than is normally acknowledged
- Interstate wars are a low-probability event; they are generally confined to two main belligerents and contained
- Civil wars or violent action on the part of non-state actors are phenomena whose frequency has not diminished at the global level
- Cases in which violent action on the part of non-state actors has inflicted significant damage to existing installations include the “insurgency” phase in Iraq and MEND in Nigeria
- If oil installations are in remote or inhabited locations, the cost-benefit balance of attacking oil installations is considerably worse for the non-state actor
- However, it is very obvious that a government’s inability to overcome or reabsorb violent opposition discourages international oil company investment even if the violence does not affect the vicinity of oil and gas installations.


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Threats to Logistics: Chokepoints

	EIA	EC Green Paper	IEA
Hormuz	X	X	X
Malacca	X	X	X
Bab el Mandab	X	X	X
Panama Canal and Pipeline	X	X	
Suez Canal and Sumed pipeline	X	X	X
Turkish Straits	X	X	
Baltic Sea		X	

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Threats to Logistics: Broader View

- The SECURE project analysis has shown that oil shipping may be subject to attacks or accidents even in the high seas, not only at chokepoints
- The issue exists and requires further measures to more closely monitor tanker traffic
- In particular, we believe something needs to be done to address growing tanker traffic through the Turkish Straits and the entrance to the Baltic


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Policy Indications

- Maritime logistics are unlikely to generate major crises, but require constant attention
- Patrolling and surveillance of maritime traffic is essential
- Investment to reduce pressure on key choke points (Bosphorus, Danish Straits) is essential
- Investment to reduce traffic in enclosed seas is highly advisable
- Stabilisation of the oil/tanker market is an important component of oil supply security


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Volatile, unpredictable prices

- Energy security is primarily a function of investment
- Investment in a market economy is a function of the expected revenue stream, which in turn is a function of prices
- A well-functioning market is therefore a key component of security
- The main obstacle to oil and gas security of supply is the growing volatility of prices and their fundamental unpredictability
- Security itself is also dependent on prices. Customers feel secure if they can buy all the energy they need at prices that they can afford


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Causes of volatility

- Structural causes of volatility
 - Demand and supply rigid to price
 - The impact of unconventional oil and EOR
- Faulty design of oil market
 - Major oil streams not available for trading
 - Inadequacy of benchmarks
- Vicious circle of volatility and speculation

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Improving Oil Markets

- We believe in the possibility of improving the situation by increasing the relative weight of trading in real (“wet”) oil barrels rather than future paper contracts and their multiple derivatives.
- This very much depends on the will and initiative of major oil producing countries, but the EU should engage in a dialogue to encourage the adoption of better price discovery methods.


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Policy Proposals

1. Encourage the freer trading of major crude oil streams
2. Establish transparent, producer-based Oil Exchanges to generate a physical-trade based price signal
3. Increase reliance on long term pricing
4. Enforce an internationally agreed price band
5. Increase oil storage capacity in proximity to market and establish an oil lending window
6. Offer demand security through take or pay contracts
7. Encourage vertical integration


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Oil products: impacts of refinery localisation and evolving oil product specifications

- We may get the oil, but... can we get the products?
- Crude oil is not of uniform quality
- The product slate depends on refinery complexity
- Tight product specifications make the task more difficult
- Europe: excessive dieselisation?


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Policy Indications

- International alignment of products standards
- Diversification of products imports
- Reduction of differential in taxation
- Greater coordination between industry and legislators
- Biofuels, including imported, or GTL

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