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Threats to EU Security of Oil Supplies- a Critical Analysis

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Manama, November 10, 2010



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



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



Policy Proposals

- Encourage the freer trading of major crude oil streams, notably those from the Gulf
- Encourage vertical integration
- Increase reliance on long term pricing
- Increase oil storage capacity in proximity to market and establish an oil lending window
- Offer demand security through take or pay contracts
- Enforce an internationally agreed price band



Trading of major crude oil streams

- Establish “crude oil exchanges”
 - Based on forward auctions of different qualities of crude
 - Allowing secondary trading
 - Preferably based in “third” countries (such as might be Bahrain)
- This should also be viewed in the context of establishing a common GCC currency.