

IEA: Oil Supplies Sufficient

In its monthly report that came out last week, the International Energy Agency (IEA) announced that oil supplies were sufficient and that the primary cause for the current big hikes in prices are the result of attempts by industrial countries to build sufficient oil reserves along with meeting domestic consumer demand.

According to Daralhayat, the International Energy Agency represents oil-consuming industrial countries in international economic circles.

The IEA also indicated the growing calls to increase oil supply as the price of oil reached \$125 per barrel. But do we really need more oil? The answer to this question according to the IEA lies in the fact that a closer look at the balance of supply, demand and future risks, shows that the reason behind the price hike is the increasing demand and not supply shortages.

> Surplus Oil

The report also indicated up-to-date data and forecasts confirming a surplus in oil markets during the past two months. It expected this surplus to persist throughout the year in case OPEC decided to maintain the same level of production.

The IEA also added that demand rates in the US are dropping gradually and expected to continue, and the same with the patterns of high demand in China and the Middle East.

However, it also pointed out that consuming countries are calling on OPEC to increase production to reduce prices.

This is true, according to the IEA, since increasing production will raise the level of available reserves in consuming countries which in turn will lead to improving the performance of refineries and hence the prices of oil products. OPEC, however, asserts that supplies in the market are sufficient and that the current situation suits the increase in reserves.

The IEA concluded its discussion of the subject by confirming that the past 18 months have been dedicated to the discussion of the subject: are the oil reserves of consuming countries sufficient, and is the timing of the decision to raise the reserves appropriate? It is generally believed that the market can only express its need for sufficient reserves through price.

Hence, if supplies allocated for reserves run short, prices increase, and if a few consuming nations insist on a certain level of reserves, they would have to compete against consumer demand which in turn would raise prices.

> Speculation

In addition to reserve levels, the IEA also added another factor influencing prices, namely the perceptions of traders in futures, that is, speculation.

The IEA monthly report came out prior to President George Bush's visit to the Middle East this week. Despite his unusually busy schedule, especially during a presidential election season in the United States, President Bush did not forget to say, during his visit to



Saudi Arabia, that oil supplies from Saudi Arabia and other OPEC member countries are insufficient, hence calling for an increase in production to reduce price levels.

Bush had made the same announcement in his last visit to Riyadh and Abu Dhabi, despite

election seasons, mainly reducing foreign oil imports, especially Arab oil.

In this context, it is worth referring to what the IEA casually mentioned, namely the impact of speculations on the rapid price hikes.

The New York-based Integrated Oil Update bul-

OPEC ministers continue to say and confirms the credibility of their claims and arguments, namely that the record hikes in oil prices are not caused by supply shortages, and that a major factor behind these hikes is the element of speculation which does not take into consideration the demand and supply market fundamentals but rather responds more to rumors and future political and economic fears more than any other element.

> Further Price Hike

Speculators and investors benefit from positive or negative price speculations, depending on the nature of their investments and bets, and market dealers increasingly respond to reports published by research departments at financial institutions such as the report recently published by Goldman Sachs which warned about the possibility of prices rising to the \$150-\$200 range within six months to two years.

Evidently, with the actual depreciation in the value of the US dollar, the decline in international stock markets, and the inflation wave, such a forecast further pushes speculators to invest their capital in oil markets which in turn pushes oil prices to new record levels.

These forecasts are now driving the market more than the market fundamentals and their effects. None of the politicians seems willing today to face this dilemma because it is directly related to the freedom of markets and globalization.

Consuming countries are calling up on OPEC to increase production to reduce prices

the clear report from the IEA.

The reason for repeating this issue is his lack of a persuading and practical argument to address prices that do not involve making difficult decisions that differ completely from the shabby slogans raised by the Republicans and Democrats during

letin indicated that crude oil futures dealings (speculation) at New York's NYMEX and London's ICE were up from about \$9.5 billion per day five years ago to almost \$86 billion barrels a day last year, then to \$140 billion per day earlier this year.

Once again, these figures are a reminder of what

In the News

New Coal Plans Under Fire

Protestors are to launch one of the hardest-hitting environmental campaigns for more than a decade over plans to build a new generation of coal-fired power stations in the UK.

Senior scientists, City investors, international leaders and MPs from all parties have joined environmental groups in condemning plans to approve coal plants before there are guarantees that they will be fitted with equipment to stop the release of harmful greenhouse gases, the Guardian said.

Supporters of new coal power say Britain desperately needs to fill a looming energy gap and improve security of power supply. But objectors claim it is impossible to build coal stations--the most polluting of all power plants--and still cut pollution.

Without a new technology to control carbon emissions, known as "carbon capture and storage", the eight plants being planned would account for the entire carbon target that the UK has set itself for the middle of this century, say campaigners.

As a result, opposition to construction of new plants has hardened recently with new names joining the growing coalition of opposition every week.

Activists' plans are aimed at the government and at Eon, the German-owned company proposing to build the first of the new plants at Kingsnorth in Kent, said Matt Phillips of the European Climate Foundation.

Eon has already been targeted with protests at its offices and outside the headquarters of the Football Association (the company sponsors the FA Cup).

The Climate Camp, which last year organized a high-profile sit-in at Heathrow airport, has said that its 2008 camp will probably be at Kingsnorth. Events targeting other coal plant sites in Essex, Northumberland and Fife are expected.

Eon has proposed building two new coal-fired generators next to its current plant at Kingsnorth. The old plant is to be closed because it will fail tough new EU pollution limits that come into force in 2015.

The two new 800-megawatt generators would provide the same electricity as the current plant, about enough to supply one and a half million homes.

Eon estimates that the new plants, for which it is awaiting government approval, will each generate greenhouse gases equivalent to eight million tons of carbon dioxide a year at full capacity. That compares with 10 million tons for the existing plant.

Approval for the project, which could cost £1.7 billion, would be expected to bring forward applications from other utilities. Campaigners claim there are plans for at least seven new plants--at sites including Tilbury in Essex, Ferrybridge in West Yorkshire and Blyth in Northumberland--generating 10-12 gigawatts of energy, which would pump the equivalent of 50 million tons of carbon dioxide into the atmosphere every year.

To help to head off mounting public anger, Eon has entered Kingsnorth for the government-sponsored competition to stage the first commercial trials of carbon capture and storage at the site. Such schemes involve removing carbon dioxide as it is produced by burning coal and then pumping it into spaces under the ground, where it can be stored for thousands of years.

Britain is considered to be well suited to such technology, with its many depleted North Sea oil and gas fields.

However, when asked when carbon capture could be

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taken beyond the pilot project stage, Eon's clean coal business development manager, Andy Read, admitted, "It's a bit of a guessing game ... It depends on government support."

He also admitted that there is no guarantee that carbon capture, even if it is proved to work, would be fitted to Kingsnorth without the necessary subsidies.

The British government has also come under fire. In the last few months opponents of its promotion of coal power have ranged from the Royal Society, the world's most prestigious scientific organization, to the powerful Institutional Investors Group on Climate Change, whose members include BNP Paribas, HSBC and the pension funds of the BBC and the Environment Agency.

The UK is looking internationally. Denmark and New Zealand have moratoriums on new coal-fired power stations, Canada has a deadline for new coal generators to have carbon capture fitted by 2018 and California has imposed the same deadline by 2020.

US protests have led to 59 of the 151 new coal plants announced last year being dropped and 48 contested in court.

Wind Energy Promoted as Savior

Representatives from at least two companies say the province's wind-energy strategy has the potential to help guide New Brunswick, one of Canada's three maritime provinces, toward self-sufficiency and make it "the center of attention" as an electricity hub.

Officials from both Precision Wind and Suez Energy say the plan to more than double New Brunswick's power supply with wind power would greatly benefit the province, Telegraphjournal.canadaeast reported.

In fact, says Precision's Robert Leth, it could turn New Brunswick--like it did for Denmark--into a prosperous place.

"Denmark stumbled into wind energy 25 years ago," says Leth, Precision's wind energy advisor for Canada. "They got involved with it and put up turbines...without any direction. It has evolved into the largest employer in the country. It went from being a small, have-not country" to supplying one-half of the world's wind-energy technology."

Leth was responding to Energy Minister Jack Keir's announcement at a conference Thursday that the province intends on creating enough wind energy by 2025 to power 4,500 megawatts, more than double the current output from traditional sources.

Leth, who calls his Denmark analogy a "parallel" to New Brunswick, says wind energy would change the province. He also says that, again, like Denmark, New Brunswick could focus the economic benefits of a wind energy industry back into communities

within the province.

"Wind is great; community wind is fabulous...There are programs in Denmark where the benefit of wind energy goes back into the communities. The communities own and operate 75 to 80 per cent of the wind energy. They get the return on the investment."

What this has meant for those communities, says Leth, is "free day care, free health care and zero unemployment."

Don Bartlett, a Suez Energy regional vice president, echoes Leth's statements.

"This is a very positive development," says Bartlett. "What comes from this are jobs, both from construction and on-going services...It has a huge influence of capital into the local communities."

Keir's talk of wind-energy benefits for taxpayers, the environment and new industry was echoed by others at the same conference Friday.

Kaare Sandholt, a partner with EA Energyanalyze, an energy consultant firm, says it's viable in the face of rising oil prices to make the switch from traditional oil, coal and natural gas-fired sources of energy.

And, says David Coon of the Conservation Council of New Brunswick, a wind-energy industry could turn the province into more of an environmental example as well.