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Energy and the Economy

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Talking Points:

- Energy-economy interactions are multi-tiered, complex and politically charged.
- In addition to obvious macro-economic effects on inflation and GDP growth, there are huge impacts on trade balances, monetary flows, currencies and policy.
- Energy is a key factor of production -- along with capital, labor, and materials -- and energy costs influence factor choice and final goods pricing.
- Within the energy space alternative fossil fuels and other energy sources compete not only on a price basis, but also on policy grounds such as "national security/energy independence" and environment.
- Oil is the critical element of the energy-economy relationship; the largest component of world trade in value and volume terms.
- Oil is an economic paradox: it is;
 - highly fungible, yet heterogeneous for both crude oil and petroleum products,
 - with geographically diverse demand but highly concentrated supply, and
 - the short-term marginal supplier has typically been the lowest cost producer.
 - Oil projects have very long lead times, while paper market transactions swing on very short-term events, or market psychology.
- Oil markets have two distinct sides with opposing economic relationships for producers and consumers, but both need good information.
- The current physical oil market is clearly a sellers' market and looks to stay that way for the foreseeable future.
- But the physical market interacts with paper derivative markets that now involve much more oil than the physical market and are growing.
- Oil will always be political.