



**Energy Security Dialogue:
Impact of the Financial Crisis on Energy Industries**

THE GLOBAL ENERGY AGENCY

A new paradigm of cooperation for the oil market

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Q&Q (Quotation and Question) I

“There is nothing so disastrous as a rational investment policy in an irrational world”

John Maynard Keynes

Does stability of crude oil price have an economic and social value?



Q&Q (Quotation and Question) II

“The evils of speculation are particularly acute when the forecasts are not made independently. [...] as a matter of fact, the mistakes of the common herd are usually in the same direction. Like sheep, they all follow a single leader. [...] Hence a crisis is the penalty which must be paid when a previous general error in prediction is discovered. “

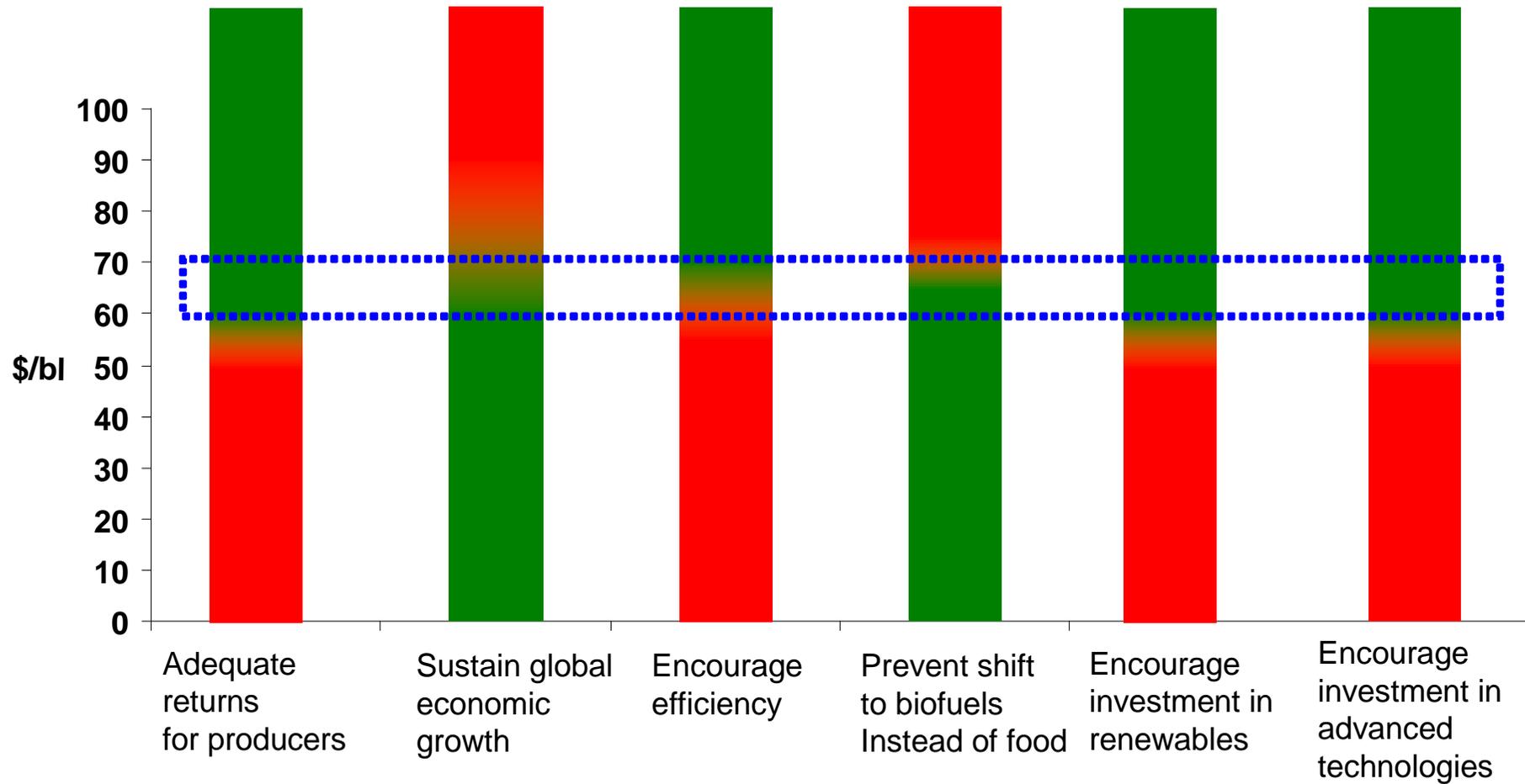
Irving Fisher

If we believe that oil price stabilisation is valuable, is there anything that can be done to achieve it?



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Does oil price stabilisation have a value?



the stabilisation of oil markets is an essential condition not only for the oil market itself, but for any well thought-out policy to build the world energy future and sustainable development.



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How to stabilise oil prices?

- Eni publicly stressed the **need for a new cooperation paradigm** coming up with a few preliminary ideas for:
 - transparency and predictability of the oil market
 - reduction of oil price volatility
 - stable investment conditions
 - sustainable development
- These ideas may turn into the **starting points for an open discussion** within the oil&gas industry, both at governmental and business levels
- The current market situation might be the **right moment to pursue innovative solutions** for reducing oil price volatility, improving global oil and economic security

Innovating means thinking outside the box



Eni proposal for oil price stabilisation

The eni proposal for oil price stabilisation has two main pillars:

- the **establishment of a Global Energy Agency**, to improve and extend information on the oil market and on energy in general – which would contribute to the transparency and predictability of the oil market
- the **identification and implementation of mechanisms** to enhance oil price stability – an effort which would be fostered and managed by the Global Energy Agency



Most Promising Options

- The proposed tools are to be strictly connected and interrelated



Spare Capacity Market is an instrument for consumers to buy the needed spare capacity volumes (“book capacity”) to protect themselves against high oil prices and to reduce the risks of peaks in oil demand, also for extended periods



Global Stabilization Fund would guarantee producers with a minimum oil price and a fair stream of revenues, when the oil price is below a certain floor, by drawing funds from consumers. In fact, an excess of spare capacity (caused by an unforeseen drop in oil demand) could depress the oil price damaging budgets of producing countries and affecting investments in oil&gas sector



Global Oil Stocks would shave demand peaks in short term perspective



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A gradual and progressive path

	Actions	Complexity rate
1	Establishing the Global Energy Agency including producers and consumers	
2	Improving quality and extension of energy statistics (physical and paper barrel)	
3	Enlarging and improving stock management	
4	Identifying and selecting tools for oil price stabilisation	
5	Tools management	
6	Gathering and managing funds necessary for implementation of tools	

 relatively easy
 relatively difficult



Final remarks

- The oil price has repercussions for all other energy sources, for economic growth and for sustainable development
- The recent boom and bust cycle highlights the need for a new cooperation model in the oil market to enhance stability
- The starting point would be the establishment of the Global Energy Agency
- This organisation would foster dialogue to identify the most effective mechanisms to enhance oil price stability and would eventually manage them efficiently
- The long-term benefits for all players outweigh the costs. Raising awareness of these benefits is crucial to achieve the broad consensus and political support
- The challenges are significant, but “game-changing” developments rarely, if ever, materialize without major effort

