Battling energy cartels

According to 2007 BP Statistical Review, 2006 world energy consumption amounted to 10.878 million tons oil equivalent – mtoe -, of which 36% corresponded to oil, 24% to natural gas, 28% to coal , 6% to nuclear energy and 6% to hydroelectricity, excluding solar, wind and other minor energy sources. The first two sources, which tend to appear jointly and explain 60% of world energy consumption, have markets directly and explicitly influenced by the OPEC cartel and a newly born one known as Gas Exporting Countries Forum. Unsurprisingly, there is no recognizable world energy consumption cartel.

This BP report also makes clear that the US consumed 21% of world energy, followed by China and the European Union with 16% each one and Japan with 5%, totaling 58% of world energy consumption. However, domestic energy production represented 70% of total consumption in the US, 92% in China, 43% in the European Union and 17% in Japan. In aggregate terms and during 2006, these countries had 4.029 and 6.267 mtoe production and consumption, respectively, with a net deficit representing 32% of total consumption. Put in other words, a net energy importing group.

Alternatively, Russia and the Middle East, with their oil and natural gas riches, produced 2.781 mtoe – equivalent to 26% of world energy production – and consumed 1.259 mtoe in 2006, generating an energy surplus of 1.522 mtoe. Correspondingly, a net energy exporting group.

Given the above, how is it possible that such an organized group has been impairing the competition in world energy markets to their benefit, with no real punishment? It turns out that the US and the European Union in particular have legal mechanisms to confront cartel practices in various markets, but apparently they do not work in these cases. Examples abound over firms practices sanctions: Microsoft has recently been fined again – over US$ 1 billion - by the EU antitrust entity for its closed access to its operating codes and abuse of dominant position; Britain's Office of Fair Trading charges could have British Airways executives in jail for alleged price fixing deals between Virgin and British Airways. Alas, there are no punitive examples over countries or oil kingdoms practices.

How to deal with this obvious lack of symmetry? Economically and politically, it does not seem possible or practical to have any country or oil kingdom punished under these antitrust divisions. Lesser pressure could be applied over their financial investment arms, restraining their operations until their mother countries commit themselves to effective competitive policies everywhere, particularly in energy. Still, what is more feasible at this time is to weaken these energy supply cartels by promoting a credible and economically efficient alternative that could be opened to many countries that today have to supply the net difference in energy markets. That is where a revamped nuclear energy industry comes in.

It so happens that the same energy deficient countries of the US, EU and Japan produced in 2006 476 mtoe from nuclear energy, and China a marginal 12 mtoe. All of them accounted for 77% of world nuclear energy production that same year. A tripling of our present world nuclear industry would almost be equivalent to the net energy now being supplied from Russia and the Middle East. It should not be difficult to understand the crippling effect of this policy on long term energy prices and the market power of the oil and gas cartels.

Interestingly enough, this is not a proposal to subsidize this industry nor to create a new cartel, but to competitively expand nuclear power, historically restrained for security and environmental issues, but not for its economics. A policy that also needs to consider that no country would like to depend on any other one for its energy needs, but from a pool of responsible technology and enriched uranium providers – US, EU and Japan – , keeping open access to all other alternative energy sources. At the same time, their capital markets should finance this nuclear power expansion under one basic condition: a committed backing from their own political institutions to internationally develop this energy upon demand, with transparent security conditions attached.

And the payback, available to all, would be reflected in lower energy prices from cartelized ones to more competitive ones – 10%, 30%, who really knows? - . Furthermore, financing arrangements could be structured on a base price of energy – using the price of a barrel of oil, for example – and a sharing participation clause that could consider the up or downside movements of its price over a long term period: parameterized nuclear bonds. Even better, nuclear power is today considered environmentally friendlier than oil, natural gas or coal, and much more underutilized.

Surely there are security concerns, a' la Iran. But there are also other mechanisms to correct for that. The alternative course is continuing this nonsensical income redistribution toward energy cartels and their imperfect supply substitutes under increasing economic and geopolitical stress, when at the same time a relatively idle competitive technology exists to counter their manifest market power.

China could and should be part of this scheme, if it analyzed this policy over a long term scenario. It is much better for her being part of the solution than being part of the problem.

And last, but not least, the signaling against cartels everywhere would be strong, for the benefit of all of us, humble citizens of a globalized world.

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