

Responding to High Oil Prices

Energy Summit Workshop

January 31, 2008

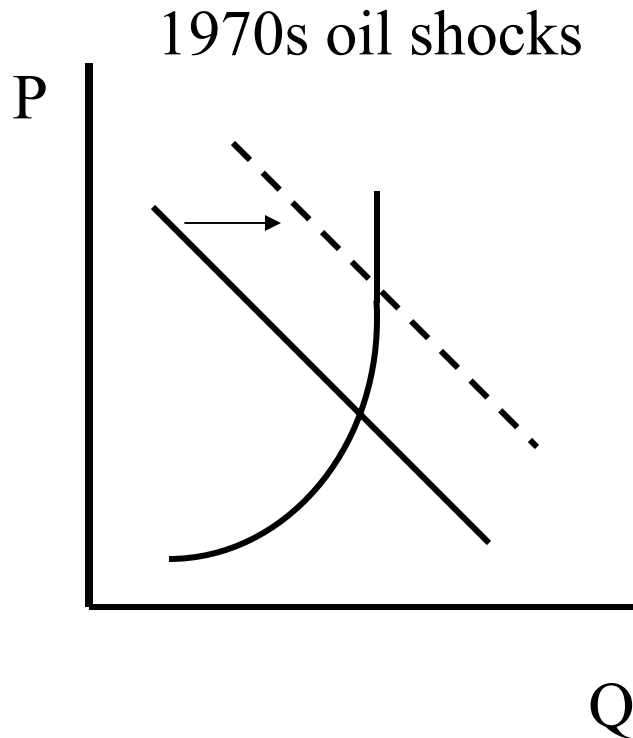
Peter Lee U

Too Small To Affect Prices

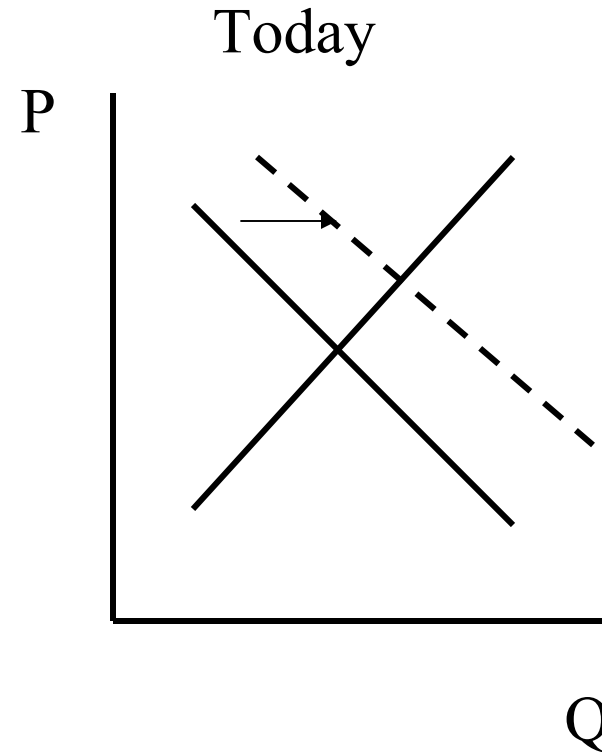
- RP demand in 2007: 0.28 million barrels/day
- We import virtually all our requirements. Domestic production negligible
- The world demand is 86 million barrels a day.
- Saudi Arabia pumps 11 million barrels of crude oil a day.

We are price takers!

Then and Now

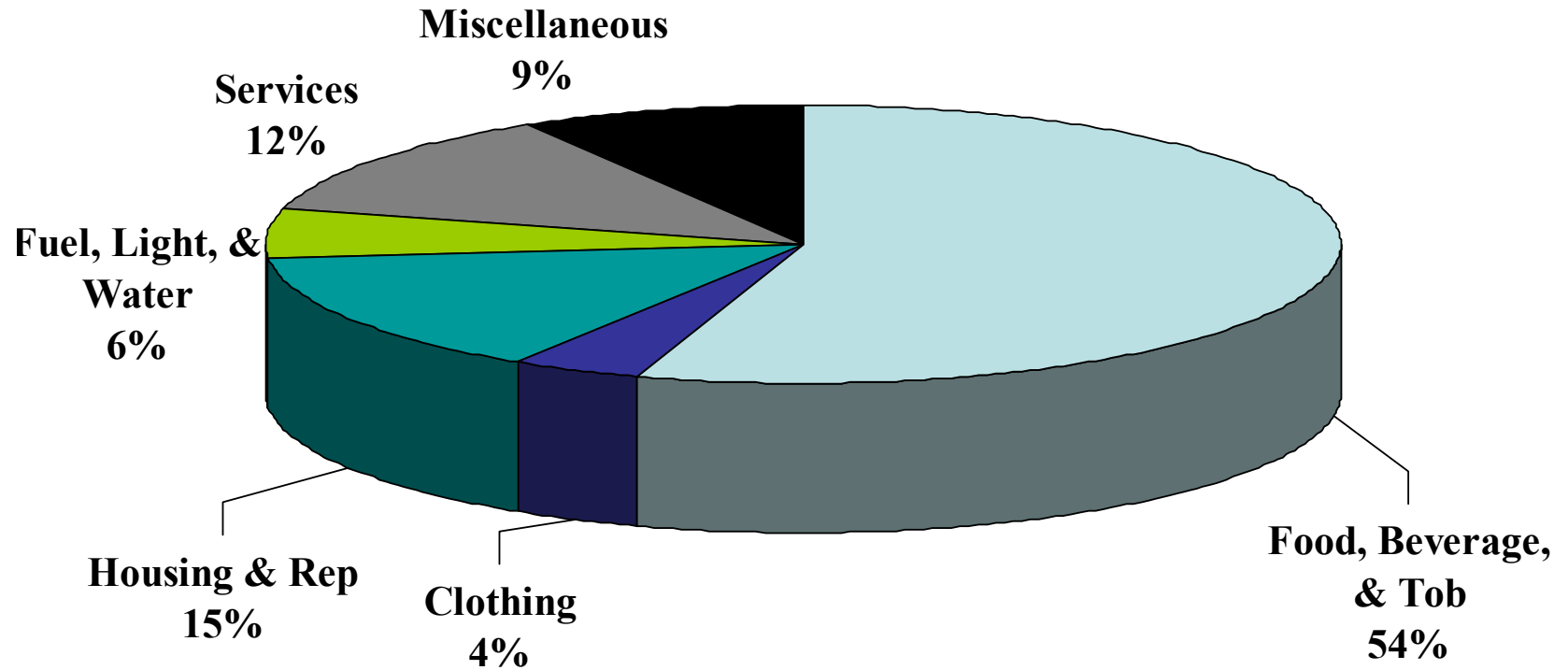


Opec quota limited output artificially.



Thus even with insatiable thirst of China, supply has been forthcoming, albeit at very high prices.

CPI Weights (1994 = 100)



Source: NSO

Estimated Effects After 1 Year of a 20% Oil Price Hike

	Real GDP (%)	Inflation (%)
China	-0.4	0.4
India	-0.5	1.3
Indonesia	0.1	1
Korea	-0.9	0.8
Malaysia	-0.2	1
Philippines	-0.8	0.8
Thailand	-0.9	0.4

Source: IMF (2000)

Fuel Inflation vs Overall Inflation

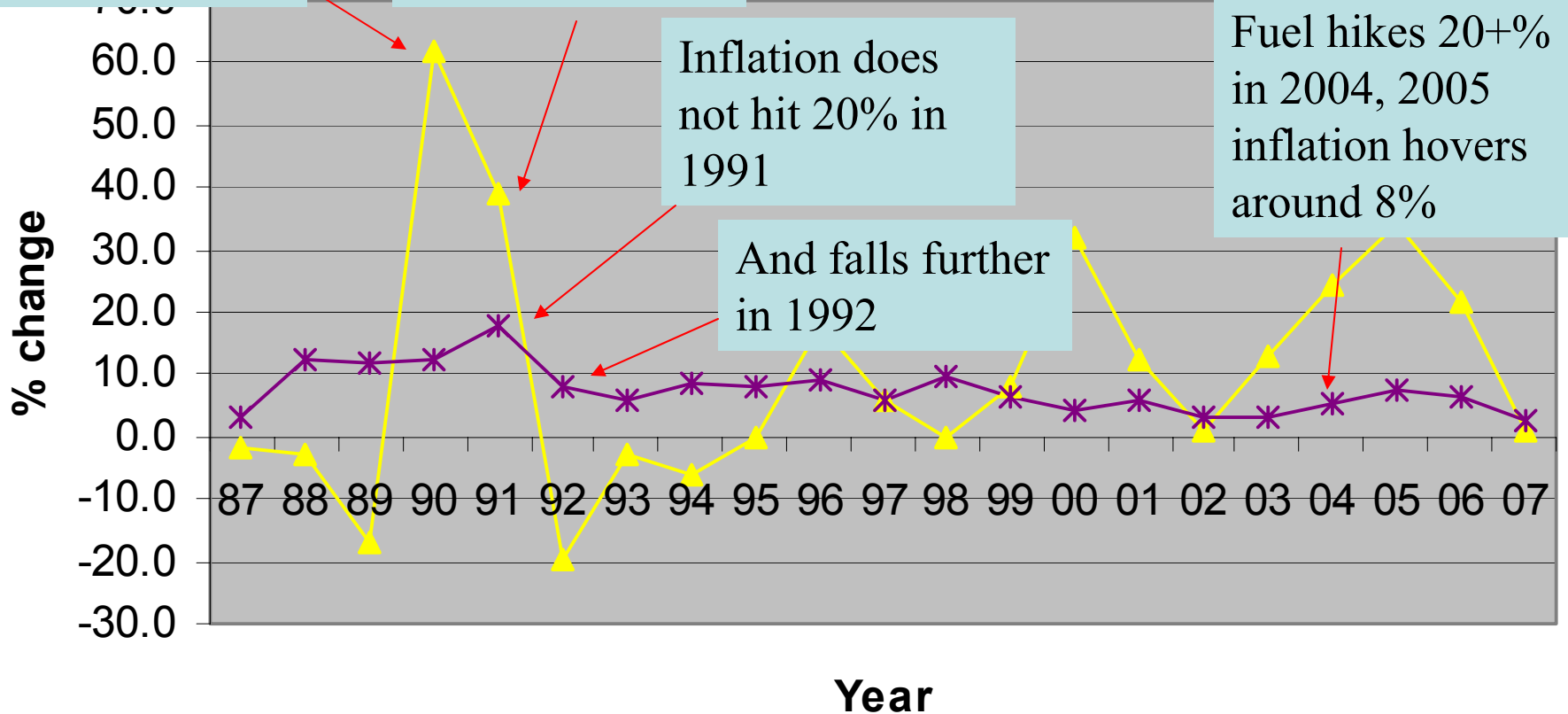
Even though fuel spikes by 60% in 1990

And a further 40% in 1991

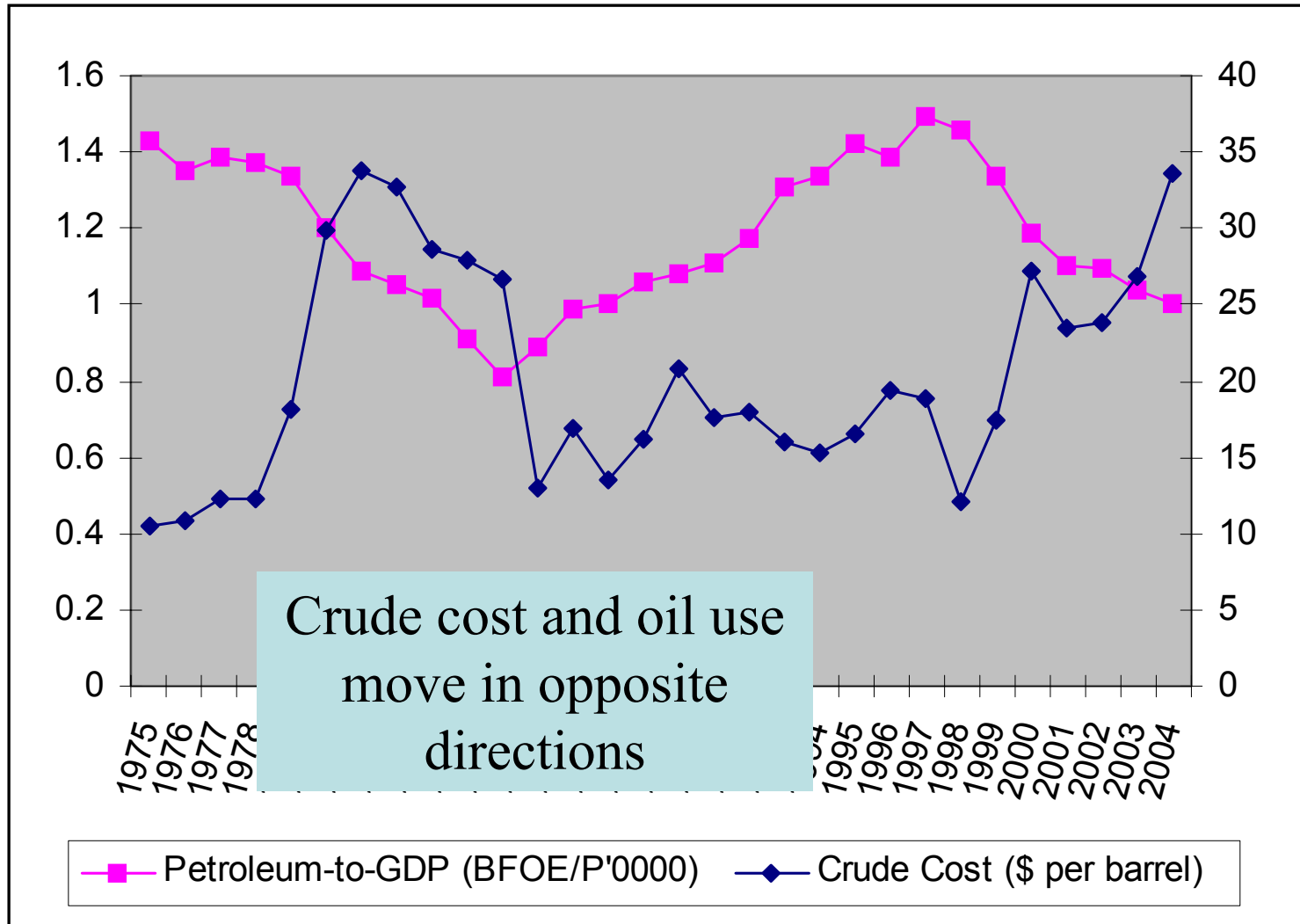
Inflation does not hit 20% in 1991

And falls further in 1992

Fuel hikes 20+% in 2004, 2005 inflation hovers around 8%



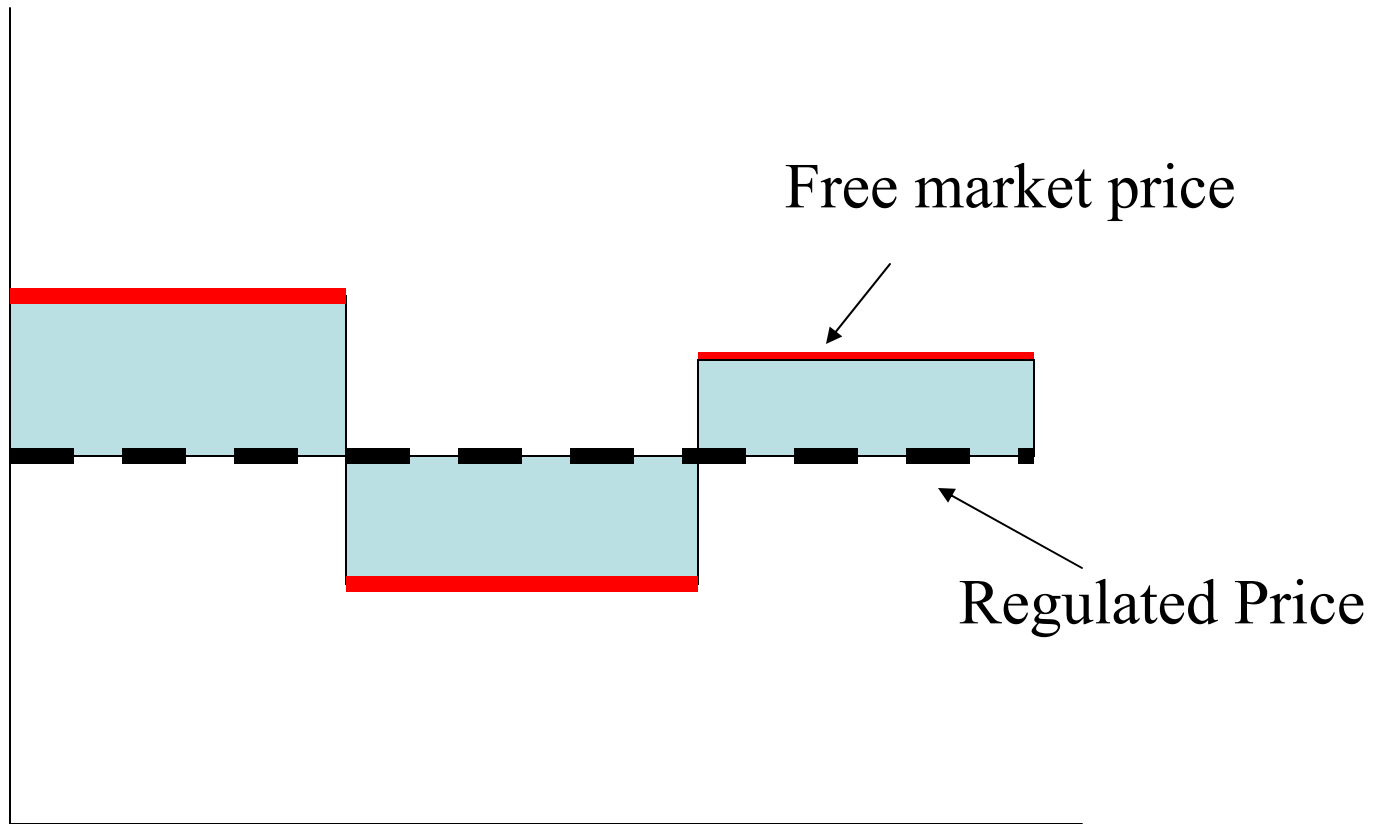
Petroleum Intensity of Economy



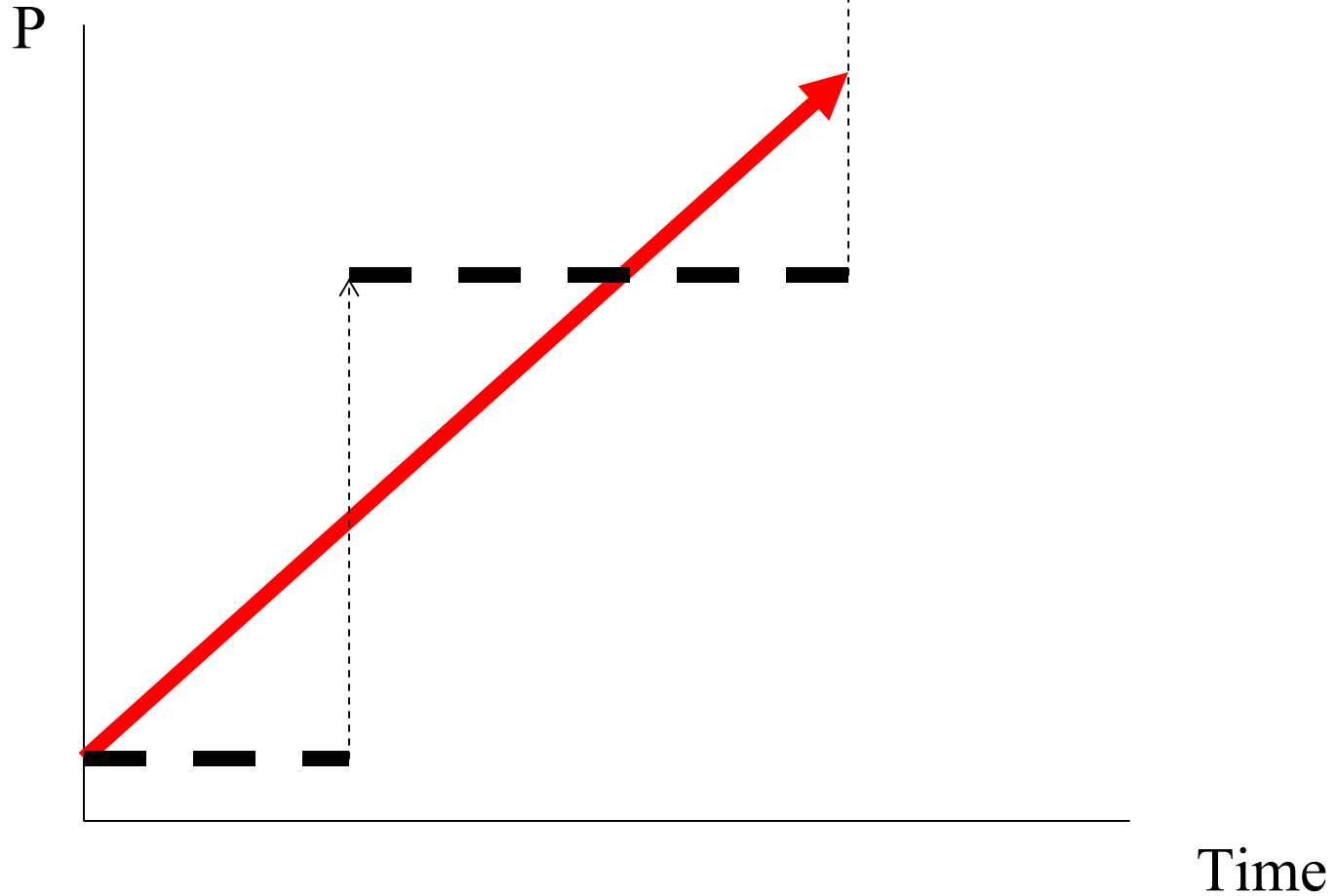
Policy Options?

- Scrap Oil Deregulation Law?
- Institute OPSF/Buffer Fund?
- Subsidize?
- Ration?
- Alternative fuels – ethanol, CME

OPSF/Buffer Fund?



OPSF/Buffer Fund?



Subsidize?

- High prices will naturally lead to conservation. Subsidizing oil prices blunts this effect. Free rider problem in energy conservation
- We probably couldn't afford it anyway.
- Keeping oil artificially cheap also takes the edge off alternative fuels.
- Targeted assistance for the poor.

Alternative fuels

- Some firms had introduced 10% ethanol blend for gasoline even without a law mandating it.
- Demonstrates that if prices are “right”, the market will respond.
- Will not be solution however.

Other assorted ideas

- Competition policy law and agency
- For price transparency – oil companies' IPO