

Interview Philippe Chalmin

'High oil prices are a good thing for the world'

As general editor of the World Commodity Yearbook, French Economist Philippe Chalmin enjoys a unique perspective on global commodity markets. He does not believe in cheap energy anymore, and even thinks high energy prices are good for curbing demand and boosting alternatives to fossil fuels.

| by Hughes Belin

The 2008 edition of the World Commodity Yearbook covers all commodity markets from “art” to “zirconium”, including financial commodities and energy. The annual publication also provides an overall geo-political and economic vision of the world. Thus the book is really a review of all kinds of world markets in 2007-2008.

Are we really experiencing an oil shock?

Definitely. Even with today's prices around 80 dollars a barrel, they still are fairly high. And you can definitely speak of an oil shock. We are in the midst of a third oil shock, that's very clear, with very great volatility. We saw prices rising almost to 150 dollars a barrel. Now they are down to half of that, but they were coming from 10 dollars a barrel in 1999. So yes, it can be called the third oil shock.

What drives the trend in energy commodities?

It has been demand. That's very clear. In developed countries we have recently seen a slow-down in demand. But demand has been growing in emerging countries too. In the last four years, demand has roughly risen by four million barrels a day: one million from the United States, one from China, one from the rest of Asia, one from the rest of the world.

What about biofuels, are they the drivers for higher food prices?

No, they are one of the factors but probably not the main one. Biofuels are not made from wheat and rice and it's for wheat and rice that prices rose most. Biofuels have a certain responsibility for driving prices of corn, for example, and for oilseed and soybeans. But if you take the world production of grain, which is around two billion tons, biofuels have only used around one hundred million tons.

Nevertheless, sugar prices did not show price hikes.

Sugar was a bit surprising because in fact one would have thought that sugar should have benefited from the oil shock for the good reason that the world's biggest producer and exporter of sugar is Brazil. Brazil is also using its sugar cane to produce alcohol and ethanol. So one would have thought that with higher oil prices Brazil would have produced less sugar and more alcohol from sugar. This didn't happen because there was a strong growth in sugar cane production in Brazil so they were able to handle both markets.

What are, in your opinion, the greatest challenges of the 21st Century?

With the view we have had this year, I would say the greatest 21st century challenge is the food challenge. Perhaps more than the energy challenge, because in energy, I imagine there will be many technological changes, whereas in food, a man in 2070 will have to eat roughly the same quantity of food as now. As we will be more numerous, and I hope richer, that means the world will have to double its agricultural production just to satisfy its food needs. I think it's a greater challenge than, for example, energy or climate change. In order of importance, the first one is food, the second is climate, the third is energy and the fourth – I think it's a less important one because there is no scarcity – mining (metals and minerals).

What is your analysis of the current financial crisis?

Well, it happened after the publication of our yearbook. It's probably the deepest financial crisis we have ever had, at least of the same magnitude as October 1929. Of course there are many differences but it's really one of the greatest confidence crises the



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financial and banking sectors have ever known. The difference with 1929 is that for the moment, we are in recession, we are not in depression. There is a slight difference.

Will it have an impact on energy prices and investments?

Higher oil prices have stimulated investment, that's clear. But now the financial crisis reduces the size of funds which might be invested, both in energy and mining. So one of the consequences of the present crisis might be to postpone a certain number of investments, which seemed to be in the pipeline just some months ago.

Will oil prices rise again as a consequence of the financial crisis?

No, I don't think so because within a crisis, it must be reminded that demand will slow down and eventually will diminish in a number of developed countries. So when you see, for example, that the United States represent around a quarter of oil consumption in the world, lower demand there will have a huge impact. The main consequence on energy prices and on oil prices, of course, is the turmoil in the markets right now with many financial institutions fleeing any kind of market, including oil and commodities.

What would you advise in the current situation?

In the energy sector it's clear: I do think, prices above 100 dollars were a gift from the sky because in fact this forced us act wisely. For example, if you take a country like France, we had the so-called "Grenelle de l'environnement", a national debate on environment policy, last year. At that time, oil prices had risen to about 80 dollars

a barrel - which seemed to us at that time extremely high. But there wouldn't have been such a national debate if oil prices had been at 10 dollars a barrel. So I do think it's a good thing for the world as a whole to have a high level of oil prices.

What should investors put their money in?

One has to invest both in projects, production, and in research and substitution of uses, especially of oil. One main problem - which we didn't solve during the first and second oil shock - is that we haven't managed to find a substitute for oil. We substituted it for a number of uses - except for one, which is transport. And one of our great challenges now will be to succeed in not using oil anymore in transport. Electricity, biofuels, hydrogen, gas? Give it some time. Many inventions will come true which you and I have no idea of at this moment. ■

Who is Philippe Chalmin?

Philippe Chalmin is Member of the Council of Economic Advisers (Office of the Prime Minister), Consultant for the World Bank and many multinational companies, Professor of Economic History at Paris-Dauphine University. He is the Founding chairman of "CyclOpe" commodity research institute and General editor of the commodity yearbook "CyclOpe" since 1985.