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Recipe for higher oil prices

The uncertainty over the onset of the winter weather and Putin's announcement of mobilizing more troops which is a sign of potential escalation in Ukraine will have an even bigger impact than what we have seen so far on the supply of oil and gas. On top of that, we continue to see the EU and others move towards imposing tighter Russian oil sanctions as we get towards December 5th. If there is a ratcheting up of tensions on the ground in Ukraine, and the cold weather early in the winter season, then we have a recipe for severe market tension, and thus higher oil prices.

Is stress coming out of energy crisis in Europe?

To some extent, what we are seeing in gas prices in Europe is like what has happened with oil prices just after the invasion of Ukraine where it shot up to \$139 a barrel. Nobody knew exactly what was going to happen, there's an element of a knee-jerk response. But crude oil prices have settled down since, not the products. European economies have done a good job in filling their gas inventories ahead of the winter season, so there is expectation of the heat to come out of the big gas price. At one point one of the major European economies had an energy equivalent basis of \$600 a barrel. Until recently, it was still well over \$450 a barrel for gas. So, they are coming down a bit, but prices are still sky-high.

Product prices have been very dramatic.

We have seen jet fuel prices on an equivalent basis, close to \$300 a barrel earlier this year and diesel prices at very elevated levels. Why is that? Because globally, there is pressure on refining capacity. This has been highlighted during the summer by the United States. We should not overlook that there is pressure on this too and that raises more questions about investments. ■

**Paraphrased Comments*



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