Robert Triffin International

SDR NOTES
No. 7
May
2020

OIL AND CARBON PRICES: THE EMERGING ROLE OF THE SDR

Elena Flor *

The price of oil is one of the most observed indicators – alongside trends in GDP, exchange rates, and stock exchange data – to determine trends in the economy. The oil market is, by its nature, global: while production is concentrated in some areas, consumption is widespread, all over the world.

The concentration of production in some countries determined the oligopolistic character of the market itself, and it was therefore not surprising that, from the '70s, a cartel was formed: OPEC. Despite this presence of a group of countries determined to stabilize production in line with trends in consumption, the price of oil has strongly fluctuated, especially in recent years: from a few dollars a barrel, the price has seen peaks of over 150 dollars, only to collapse in recent times to 10 dollars.

The intended stabilizing action of OPEC, aimed at maintaining over time rates of extraction compatible with trends in consumption has, however, become more complicated in recent years due to two variables that have weakened the cartel's ability to intervene. The change in international power balances following the fall of the Berlin wall profoundly changed relations between states and, in particular, it destabilized important oil countries such as Venezuela, Iran, Libya and Iraq. In addition, the instability of the monetary system following the collapse of the Bretton Woods system, with the detachment of the dollar from its anchoring to gold, led to strong fluctuations in the price of oil due to the performance of its reference currency: the dollar.

Robert Triffin International's report, *Analysing commodity prices: trend for crude oil and wheat in US dollar, Euro and SDR*, published in 2017, indicated that changes in oil prices were often due to the trend of the dollar, and therefore unrelated to trends of supply and demand.

*** Managing Director, Robert Triffin International**
Email: elena.flor@triffininternational.eu

The world economic system can no longer rely on the price of oil as a key indicator to guide economic operators, and more generally the economic policies of states.

In the past, the reference prices were first wheat – with the creation of the commodity exchange in Chicago and the innovation of "futures" contracts – and subsequently, in the phase of widespread industrialization, of steel.

While the importance of the price of oil as a reference point for both public and private economic operators will diminish, energy will continue to be a key element of the economy.

The problems posed by the "sustainability" of the global economic system would indicate that the new reference price should be the "carbon price". Europe – which has made its strategic commitment in the Green Deal, and which is about to introduce the border carbon price – has also already initiated an Emission Trading Scheme, which was the world's first major carbon market, and remains the largest, covering around 45% of the EU's greenhouse gas emissions. The price has fluctuated in the range of 20-30 euro per CO2 ton, and is currently 20 euro per CO2 ton. The number of emissions trading systems around the world is increasing: alongside the EU emissions trading system, national or sub-national systems already operate, or are under development, in Canada, China, Japan, New Zealand, South Korea, Switzerland and the United States.[1]

Considering the effects of a single quotation currency, and given the international impact of the carbon price quotation, it would be appropriate to anchor the price to the SDR (the unit of account of the International Monetary Fund) instead of using the currency of a single area.

[1] See also the Carbon Pricing Dashboard of the World Bank: carbonpricingdashboard.worldbank.org

ROBERT TRIFFIN INTERNATIONAL

Université Catholique de Louvain
Place des Doyens 1
B-1348 Louvain-la-Neuve - BELGIUM

Research Center
Centro Studi sul Federalismo
Piazza Arbarello, 8
10122 - Torino - ITALY

www.triffininternational.eu