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Sylvain Chassang on Strategic Energy Purchases: Keeping Oil Prices Manageable

June 2, 2022

Webinar Transcript

Transcript:

Markus Brunnermeier: So welcome back everybody to another webinar organized by Princeton for everyone worldwide. We're happy to have Sylvain Chassang from Princeton, my colleague, here with us. Hi Sylvain. So I will talk about strategic energy purchases and the emphasis is on strategic he won't teach us about the new proposal he has gone whatnot and myself how one could redesign energy markets to make it.

4

00:07:37.050 --> 00:07:39.270

Markus Brunnermeier: more stable and less wall tile.

5

00:07:40.470 --> 00:07:48.030

Markus Brunnermeier: So before we give the floor to a cinema, let me just give a few slides of opening remarks, and then I will.

6

00:07:49.620 --> 00:07:50.070

Markus Brunnermeier: highlight.

7

00:07:51.210 --> 00:08:03.960

Markus Brunnermeier: Some of it poll questions you on set so first thing I would like to say that you know if you look at the world energy dependency, you see that you know oil which is you know the red by still a very big chunk of what.

8

00:08:04.710 --> 00:08:13.380

Markus Brunnermeier: we're consuming worldwide, of course, it's different from the country to country, but worldwide is still a huge component and then you know the blue one is the gas.

9

00:08:13.950 --> 00:08:23.520

Markus Brunnermeier: Which is also natural gas, which is very important and, equally, I mean almost equally important is the yellow one which is the coal and then you see nuclear and other.

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00:08:24.270 --> 00:08:33.570

Markus Brunnermeier: High on other aspects and plot showing up at a much smaller scale, and hopefully through renewable energy, we can actually change the landscape.

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00:08:33.840 --> 00:08:43.980

Markus Brunnermeier: And so, this guy is taken from the Bank of international for International Settlements and you know it shows the different the energy mix, we having so far and how much it is calling.

12

00:08:44.640 --> 00:08:49.950

Markus Brunnermeier: what's also important is that we have some dependencies on this energies, we want to get rid of this dependencies.

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00:08:51.180 --> 00:09:06.480

Markus Brunnermeier: And they also interdependent so different energy sources interdependent as well, so, for example, if we have more renewable energies, that means that we will depend more on the volatility of the weather so for those those less windy hamsters less been in a team.

14

00:09:07.620 --> 00:09:15.240

Markus Brunnermeier: That would mean that we will actually have done a higher demand for natural gas, because nuclear is a very stable supply of.

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00:09:15.780 --> 00:09:28.890

Markus Brunnermeier: Energy, you can switch it on and off that easily gas, you can switch really easily on and off That means, given that the renewal is more volatile, the more volatile your other energy sources are, the more you need some.

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00:09:29.550 --> 00:09:39.480

Markus Brunnermeier: energies which we can switch on and off very easily so that's actually everything is interdependent depending, what do you rely on you also need the other sources, you have more or less demand for that.

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00:09:40.470 --> 00:09:51.000

Markus Brunnermeier: But if you look at oil, for example, and typically energy prices to highly volatile and the question one of the question was Why are there so volatiles so he depicted the price.

18

00:09:51.330 --> 00:10:02.850

Markus Brunnermeier: of a barrel of oil and the European market and you see essentially you know it's around below \$20 it was below \$20 very recently during the corporate height of the corporate crisis.

19

00:10:03.210 --> 00:10:11.970

Markus Brunnermeier: And then, even before the invasion of Russia and Ukraine, you had essentially a huge increase of oil prices, and then the invasion.

20

00:10:12.780 --> 00:10:25.860

Markus Brunnermeier: of Russia and Ukraine led to an even bigger increase subsequently and it's a six fold increase in volatility is very, very high and the question is, is this volatility excessive, this was the first question.

21

00:10:27.000 --> 00:10:42.150

Markus Brunnermeier: And the answer to that is, and the answer you gave to do you think that the energy prices excessively volatile he have just shown you the oil price and actually people thought 54% thought that's excessively volatile 46% thought it is not excessively volatiles.

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00:10:43.620 --> 00:10:55.950

Markus Brunnermeier: The second question was a little bit a tricky question was in Kenya decreased prices by increasing demand know Melissa if demand goes up the price goes up but can actually increase the demand, and then it makes the price at the same time, go down.

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00:10:56.520 --> 00:11:04.560

Markus Brunnermeier: And 15% of the people thought, yes, you can do that, but 85% of the people think you cannot do that.

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00:11:05.610 --> 00:11:13.710

Markus Brunnermeier: And that's essentially we'll see whether silver can enlighten us in this regard, whether we can actually increase the amount and it same time the prices going down.

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00:11:14.190 --> 00:11:21.780

Markus Brunnermeier: Which is seems like a violation of the law of demand, and we will see this in the strategic environment where that's possible or not.

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00:11:22.560 --> 00:11:38.160

Markus Brunnermeier: The third question is would actually opaque increase supply, if you would reduce its oil imports from Russia, and the answer for that question was 62% so the OPEC actually would increase oil supply there's just some news coming out today.

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00:11:39.360 --> 00:11:53.850

Markus Brunnermeier: And that's what people thought and the rest so 38% or more, they would not the final question would actually when we do some contracting to provide some security for some energy suppliers with fixed prices and the longer so advance purchase agreements.

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00:11:54.960 --> 00:12:12.030

Markus Brunnermeier: We should just be easier to arrange if it's done with domestic suppliers of energy like fracking in the US and so forth, always would be equally easy to do it with foreigners and at the maturity thought you know it will be easier to do it with domestic suppliers and.

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00:12:13.470 --> 00:12:22.950

Markus Brunnermeier: And and will be more difficult to do it with foreigners so with this quick opening remarks, I will pass on the MIC the digital MIC to.

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00:12:23.970 --> 00:12:34.020

Markus Brunnermeier: Silva, who will tell us how we could design in the redesign a global energy market, in particular the oil market, such that you know oil crisis might be less volatile.

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00:12:34.350 --> 00:12:44.670

Markus Brunnermeier: And we could also strategically use the environment, given that, on the one side, we have a cocktail what what have you learned from other literature and procurement and micro theory.

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00:12:45.030 --> 00:12:58.470

Markus Brunnermeier: What have you learned and how can we use this knowledge to have more socially well functioning energy market for all of us and silver, the floor is yours and i'm looking forward to your Expositions.

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00:12:59.730 --> 00:13:02.490

Sylvain Chassang: Alright, so I need to share my screen.

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00:13:07.290 --> 00:13:07.950

Sylvain Chassang: Can you see me.

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00:13:08.730 --> 00:13:09.660

Markus Brunnermeier: Yes, perfect.

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00:13:10.470 --> 00:13:13.410

Sylvain Chassang: All right, very good, so thank you all for coming to this talk.

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00:13:15.330 --> 00:13:20.790

Sylvain Chassang: So, like I said this is chat or up with Marcus and Athena and the question is, you know.

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00:13:22.230 --> 00:13:28.680

Sylvain Chassang: How can we manage energy prices to a strategic use of you know, our purchase capacity.

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00:13:30.390 --> 00:13:49.650

Sylvain Chassang: We will have to sort of two main challenges in mind when we started working on this project, the first one, you know it's sort of obvious it's the high energy prices that we're currently dealing with you know that problematic for two reasons they had supportive belligerent Russia.

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00:13:50.730 --> 00:13:55.590

Sylvain Chassang: They limit the ways in which you know Europe in the West can take action.

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00:13:56.610 --> 00:14:12.240

Sylvain Chassang: The second is that you know they feel inflation, even though energy prices are a huge part of the CPI it's a very visible part of the CPI whenever I drive around you know I see the price of gasoline and so it's you know it likely has.

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00:14:13.290 --> 00:14:22.620

Sylvain Chassang: An outsized way in terms of you know, setting up inflation expectations and also and also social inequality issues between cities and you know.

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00:14:23.160 --> 00:14:32.430

Sylvain Chassang: Rural citizens that are sort of important, but the second challenge you know it is a data of supply network resilience and in some sense.

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00:14:32.730 --> 00:14:44.610

Sylvain Chassang: You know, because energy crisis and the related fuel prices are kind of exit phases in how to mount coordinated responses to supply challenges.

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00:14:45.450 --> 00:14:53.370

Sylvain Chassang: With the stakes being pretty clear on pretty high like if we don't have the successful coordinated response to these challenges.

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00:14:54.150 --> 00:15:08.850

Sylvain Chassang: What people are going to do is you know not going to give to a document protectionism, you know and we've seen some elements of that happened, especially in the food market Okay, so why not try and provide some ideas related to this.

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00:15:10.110 --> 00:15:17.040

Sylvain Chassang: That you know with either case study but that you know, hopefully, can be applied to other communities and keyboards.

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00:15:18.450 --> 00:15:27.060

Sylvain Chassang: Alright, so those are the problems we have a specific expertise to break so people have made a number of policy proposal organs in this domain.

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00:15:27.510 --> 00:15:37.680

Sylvain Chassang: You know, you know, some have been around the idea of faxing Russian Ireland, you know, based on an understanding of elasticity is verb specific.

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00:15:38.160 --> 00:15:51.180

Sylvain Chassang: expertise we have is that of collusion in particular so with one asana and other courses K co and you know capacity over the last you know seven plus years we've been doing a lot of work on understanding.

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00:15:52.830 --> 00:16:01.530

Sylvain Chassang: How to deal with procurement issues when you're facing a capitalized only group artistic market with high entry costs.

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00:16:02.160 --> 00:16:14.100

Sylvain Chassang: Okay, and it's something that local governments face that most firms face, and in some sense it applies to the concentration, you know, like the market, for it is essentially you know.

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00:16:14.730 --> 00:16:22.560

Sylvain Chassang: Only good ballistic with a lot of you know leadership by you know let's say oh back and OPEC plus.

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00:16:23.280 --> 00:16:32.250

Sylvain Chassang: And the reason we think this expertise is relevant is that the economics of catalyzed markets are really quite different from the economics of competitive markets.

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00:16:32.820 --> 00:16:39.090

Sylvain Chassang: Okay, and that's you know this point about you know, could you increase the metal prices, what happens here is that.

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00:16:39.840 --> 00:16:48.300

Sylvain Chassang: insights that you get from you know the usual imagine that analysis of the supply curve is probably wrong, because it is a capitalized market, you have.

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00:16:48.780 --> 00:16:57.390

Sylvain Chassang: Players so some of the policies you get from imagine that I learned is this are going to have issues and, at the same time, to have some good news right, you know.

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00:16:58.950 --> 00:17:10.680

Sylvain Chassang: We have identified, you know people who deal with procurement have identified, you know policy solutions to this issue of procuring in a capitalized publicity legal ballistic market.

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00:17:11.190 --> 00:17:21.210

Sylvain Chassang: If I think it is these markets are kind of so inefficient that are going to be some free lunches around because you start you know from you know something that's very much a second or third best.

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00:17:21.750 --> 00:17:30.870

Sylvain Chassang: Okay, and you know that's where our proposal is going to have something original to contribute that are going to be there's going to be a different set of trade offs.

61

00:17:32.340 --> 00:17:36.330

Sylvain Chassang: To the ones that have been proposed so far okay.

62

00:17:37.830 --> 00:17:46.050

Sylvain Chassang: So let me walk you briefly through the talk i'm going to start by giving you a relatively simple.

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00:17:46.470 --> 00:17:52.830

Sylvain Chassang: framework to understand this catalyzed market is going to be what i'm going to call the tactile discipline equation it just tells me.

64

00:17:53.340 --> 00:18:07.290

Sylvain Chassang: When as a participant in a capitalized economy, they don't have to be a formal cocktail Member they could be you know some producer in the legal ballistic catalyze economy choose to increase production, a little bit more okay.

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00:18:08.310 --> 00:18:17.130

Sylvain Chassang: Then i'll get into the ballistic proposal so there's going to be a case five digit energy procurement board with the fundraising side of.

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00:18:19.290 --> 00:18:32.550

Sylvain Chassang: You know bargain in mind, that is not that we want to go from very high and vilified prices to vilify low prices, you know the bug is i'm going to try and articulate in one in one is one in which they go from.

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00:18:33.060 --> 00:18:43.500

Sylvain Chassang: High tide prices to moderately high and stable prices right and i'm going to argue that it's a sort of a win, win, win because you know, there is something for producers, something for.

68

00:18:43.860 --> 00:19:02.040

Sylvain Chassang: For consumers essentially can ensure one another and that is potentially something for you know environment of stakeholders, because you know high prices of energy also mean that is a stable market for renewables to you know calendar entry.

69

00:19:03.210 --> 00:19:10.410

Sylvain Chassang: Okay, one reason why you know I think it's we thought we had something to contribute here is that.

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00:19:11.430 --> 00:19:26.040

Sylvain Chassang: Unlike many proposals to deal with high prices, right now, we do not operate who demand reduction right if you have a competitive market that's really the only way you get to reduce prices is just to reduce demand here.

71

00:19:26.880 --> 00:19:33.900

Sylvain Chassang: You know i'm going to tie in a level at a sort of understanding of how cocktails and then have your ballistic markets work.

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00:19:34.500 --> 00:19:44.070

Sylvain Chassang: and use at least some component of demand strategically to affect industry conduct, and in this case structure okay.

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00:19:44.670 --> 00:19:49.800

Sylvain Chassang: And you know so we're going to take a beta different margin and that's going to make, for you know.

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00:19:50.520 --> 00:20:03.840

Sylvain Chassang: Much a day at least a different set of pressure points, not that are not challenges related to this proposal, but at least in terms of you know pain to the consumer it's going to you know I think it's going to be milder okay.

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00:20:04.860 --> 00:20:08.250

Sylvain Chassang: You know and we'll do our best to take admissions target into account as well.

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00:20:09.120 --> 00:20:16.350

Sylvain Chassang: Alright, and then the third part of the talk I say okay well you know this insights we had about capitalized markets.

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00:20:16.890 --> 00:20:27.750

Sylvain Chassang: You know, led us to this proposal that's kind of useful, but they also refined and inform our understanding of how other policies, my workout okay so i'll talk briefly about those at the end.

78

00:20:29.220 --> 00:20:31.110

Sylvain Chassang: Okay, any questions.

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00:20:33.120 --> 00:20:33.510

All right.

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00:20:35.100 --> 00:20:36.090

Markus Brunnermeier: Nice all of you.

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00:20:37.920 --> 00:20:43.830

Sylvain Chassang: Okay, so let me get started with our framework Okay, so you know.

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00:20:45.180 --> 00:20:51.600

Sylvain Chassang: People in the you know throughout the G seven Joe Biden, especially have been pretty vocal about getting I producing.

83

00:20:52.350 --> 00:21:08.730

Sylvain Chassang: Producers in whether it's open or whether it's you know people operating in the marcellus shale to you know produce more with very little response Okay, today there was you know some last announcement, but they just said that you know.

84

00:21:09.990 --> 00:21:14.280

Sylvain Chassang: You know the speed of increase would grow from 400,000 barrels.

85

00:21:16.290 --> 00:21:22.770

Sylvain Chassang: A day a month to you know \$700 per month increase per month, out of you know.

86

00:21:24.090 --> 00:21:32.040

Sylvain Chassang: A world consumption that is you know, maybe 100 million barrels a day at the time, so it's a small amount.

87

00:21:34.770 --> 00:21:46.950

Sylvain Chassang: So let's understand this Harlem a little bit, what does a producer take into account when choosing to increase its production right and so i'm operating in a in a you know.

88

00:21:47.940 --> 00:21:58.560

Sylvain Chassang: corner market where people compete in quantities right so i'm a producer and i'm considering whether I should increase my production by Sunday Thank you positive.

89

00:22:00.600 --> 00:22:06.840

Sylvain Chassang: i'm going to choose not to increase supply so that fell discipline will hold.

90

00:22:07.890 --> 00:22:19.470

Sylvain Chassang: If the following essentially it would change in profits in the change in the net present value of profits is negative right, so if this change in production.

91

00:22:19.860 --> 00:22:30.660

Sylvain Chassang: does not help me as a strategic impact and our producer and that symptoms to this, the first term is the one that's well familiar for marginal analysis.

92

00:22:31.020 --> 00:22:44.700

Sylvain Chassang: Okay that's the one you get from a price taking producer i'd say are essentially what are my profits on a marginal unit Okay, I put us best IQ and I make you know my.

93

00:22:45.300 --> 00:23:02.010

Sylvain Chassang: The price of that delta Q speed and I, you know, I have to pay a marginal cost MC to produce that so that's my margin, this is my margin, this is the quantity that's the profit on the margin that unit and that's where we start if we thought this was a competitive market.

94

00:23:03.780 --> 00:23:12.300

Sylvain Chassang: The second corresponds to what we have, once we realized that the market is already good ballistic right so because I could use more.

95

00:23:13.560 --> 00:23:24.690

Sylvain Chassang: I have a price impact on the world price of our right, so I produce more the price of our drops this changes the value of my info margin our production right so.

96

00:23:25.350 --> 00:23:37.650

Sylvain Chassang: Every you know if I produce an extra hundred thousand barrels a day that lowers the price of it that lowers the rest of the value of my rest, the rest of my production, so if I was producing a million dollars a day before.

97

00:23:38.340 --> 00:23:45.510

Sylvain Chassang: I have not know the value of that production and the third is the one that comes from the fact that we have a cocktail.

98

00:23:46.080 --> 00:23:58.230

Sylvain Chassang: And I can tell that punishes people, in particular, you can have price wars, you know, and they can be violent or they can be slow and you can slowly underline the prices or you can you know really have a price war.

99

00:23:58.590 --> 00:24:04.740

Sylvain Chassang: And what that does is you know this really changes, these changes producers continuation values.

100

00:24:06.450 --> 00:24:07.320

Sylvain Chassang: Okay, and so.

101

00:24:07.350 --> 00:24:19.620

Markus Brunnermeier: Typically, when I saw this price for could be occasionally have a whole cycles, now the Bible gets more severe and then it goes away again so you have the cycles in place was that's all in the delta V or.

102

00:24:20.250 --> 00:24:35.910

Sylvain Chassang: Yes, so that would be owning the debt that determine how big that is will kind of depend on the circumstances i'll talk about that, but right now, you know they just had a price war, they got out of it now everything that Tom is big I will get back to this.

103

00:24:37.980 --> 00:24:42.540

Sylvain Chassang: So this is the time that you take into account when you have a competitive view of the market.

104

00:24:43.800 --> 00:24:52.650

Sylvain Chassang: This is what you take into account when you realize that you're dealing with a really good police to catalyze market, and this, these are the terms that are going to give me.

105

00:24:53.730 --> 00:24:54.270

Sylvain Chassang: You know.

106

00:24:55.620 --> 00:24:58.230

Sylvain Chassang: room to imagine useful policies.

107

00:24:59.400 --> 00:24:59.790

Sylvain Chassang: Okay.

108

00:25:05.430 --> 00:25:06.210

Sylvain Chassang: Any questions.

109

00:25:07.500 --> 00:25:08.250

Markus Brunnermeier: so far.

110

00:25:10.650 --> 00:25:21.660

Sylvain Chassang: Okay, so let me take this simple framework for a spin and sort of user to understand why we think this is, you know kind of a good moment for producers right now.

111

00:25:23.820 --> 00:25:38.430

Sylvain Chassang: The first one is, we think that that that is in a strong position, we think that this term ΔV right this sort of threat of collusion, so you know you're going to have typically we think of that as positive.

112

00:25:39.990 --> 00:25:47.610

Sylvain Chassang: And then that price impact is going to be negative, and that term is negative right So if I look at a situation.

113

00:25:47.970 --> 00:25:56.520

Sylvain Chassang: Where people would like you know they could make money on the marginal unit, but then they worry about the international pricing package, the only group of mystic force.

114

00:25:56.910 --> 00:26:08.700

Sylvain Chassang: And then they worry about you know getting into a price war Oh, you know or undermining capital stability, you know it's a valiant have a price for it doesn't have to be you superbad just could be less good than that.

115

00:26:09.840 --> 00:26:16.890

Sylvain Chassang: And so you're going to have cartel discipline whenever these negative overwhelm this positive term over here.

116

00:26:17.940 --> 00:26:29.370

Sylvain Chassang: Okay, so now what i'm going to say I you know we think it's a moment where the capitalism is from position i'm going to say, are we think these two terms here are our big and negative right now.

117

00:26:30.660 --> 00:26:35.400

Sylvain Chassang: Okay, so the first fine as we think that is in a strong position that mean this.

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00:26:36.810 --> 00:26:42.210

Sylvain Chassang: You know this potential changing continuation values if you know you start producing more as large as.

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00:26:43.890 --> 00:26:49.020

Markus Brunnermeier: Well, was all about this, the question is, is there some tacit collusion, everything is whether it's an open the.

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00:26:49.020 --> 00:26:52.890

Markus Brunnermeier: governor of the cartel probably matters a lot what the delta V is.

121

00:26:52.920 --> 00:26:56.130

Sylvain Chassang: I think yeah I mean here it's both right so OPEC.

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00:26:56.400 --> 00:27:06.300

Sylvain Chassang: Does open conclusion right, and so you know you have these proposals to sue them under you know some settings that don't exist some antitrust studies that would have to be voted in.

123

00:27:07.170 --> 00:27:19.560

Sylvain Chassang: You know, and they haven't been voting is this notebook proposal and so all black you know, is an actual you know non capital and they communicate they had a meeting today, then make some decision to have a tiny increase in that production.

124

00:27:21.120 --> 00:27:29.370

Sylvain Chassang: But then, you also have a number of people who are sort of followers that i'm not farmer OPEC members or Russia I sort of on the fringes the plus you know back plus.

125

00:27:30.090 --> 00:27:33.210

Sylvain Chassang: You know i'm not a farmer OPEC Members but that's still.

126

00:27:34.020 --> 00:27:47.430

Sylvain Chassang: You know, responding to this force right, so if this start producing a lot more, though, you know, there may be a response from up back so he got less on are you want to participate in the cocktail but that that was a behavior will influence your behavior.

127

00:27:50.460 --> 00:27:50.820

Sylvain Chassang: Okay.

128

00:27:52.500 --> 00:27:52.830

Sylvain Chassang: alright.

129

00:27:54.390 --> 00:28:06.060

Sylvain Chassang: So back in this by that we think one of the reasons the captain, is in a strong position now is this Daddy Daddy this threat of punishment is sort of credit, but right now incredibly large.

130

00:28:09.150 --> 00:28:21.720

Sylvain Chassang: Large parts of this is that are they actually just went for a price war so in 2020 Russia and that gets you know it's the beginning of a pandemic, there were wondering about suffer demand.

131

00:28:23.190 --> 00:28:30.930

Sylvain Chassang: They decided to you know practice, you know, decided to the US production targets Russia said no.

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00:28:31.260 --> 00:28:41.190

Sylvain Chassang: They went for a price war in which Saudi Arabia, you know essentially created offered by lightning deals to the US Europe and Asia.

133

00:28:41.520 --> 00:28:53.670

Sylvain Chassang: To basically supply them at \$6 and other world prices right so big time price for that time okay that's how we end up at some point where you know negative prices okay.

134

00:28:55.050 --> 00:29:00.930

Markus Brunnermeier: The volatility of oil prices, which I said, you know multiply by six and all that well, more than six.

135

00:29:01.980 --> 00:29:05.490

Markus Brunnermeier: Is it to a large extent you to price war phenomenons.

136

00:29:06.210 --> 00:29:06.720

Markus Brunnermeier: it's.

137

00:29:06.810 --> 00:29:10.620

Markus Brunnermeier: it's a big contributed contributed to volatility, or is it.

138

00:29:11.160 --> 00:29:12.030

Markus Brunnermeier: I was.

139

00:29:12.840 --> 00:29:24.840

Sylvain Chassang: I think it might contribute to jobs, so if you think of something that's really you know the debt today is different from tomorrow, where things can really switch on our on within an hour.

140

00:29:25.560 --> 00:29:35.970

Sylvain Chassang: You know it's you know those decisions made by individuals, you know, and here I think it's fair to say that you have a handful of videos will have an outsized impact on you know.

141

00:29:36.630 --> 00:29:48.840

Sylvain Chassang: world prices, a lot, and so I think the big jam components that are really have to ensure, for you know, I think that plausibly linked to strategy behavior by members of the data.

142

00:29:50.250 --> 00:29:51.120

Sylvain Chassang: And the people around him.

143

00:29:53.280 --> 00:30:02.190

Sylvain Chassang: Okay, the other part of this is uh yeah, so now we think because they just went through a price for X X pretty credible, you know the cathode has quite a bit of.

144

00:30:07.200 --> 00:30:07.650

Sylvain Chassang: yeah.

145

00:30:08.670 --> 00:30:10.440

Sylvain Chassang: That there's a pretty big.

146

00:30:12.720 --> 00:30:23.400

Sylvain Chassang: These things are pretty credible a second aspect of this is, you know, Russia, India back only just recently reached an uneasy truce.

147

00:30:23.880 --> 00:30:34.170

Sylvain Chassang: And you know, Russia has been playing ball, even though Russia is typically are sort of and reliable partner to it back and so it's a tricky moment for open members who've been coughing Russia.

148

00:30:34.800 --> 00:30:44.970

Sylvain Chassang: and fighting Russia Russia, but just future truth, the truth to sort of the effect on them right now, so when the West is asking for back to step up.

149

00:30:46.500 --> 00:30:48.210

Sylvain Chassang: that's effectively.

150

00:30:49.590 --> 00:31:07.110

Sylvain Chassang: defection within the you know within the cat as equilibrium and that's a hard ass right now and it's pretty clear where you'd have to compensate a big members quite heavily if you wanted to them to do that Okay, you know that other aspects about you know, making up for past losses.

151

00:31:09.330 --> 00:31:20.220

Sylvain Chassang: A second find you know that I think is you know more speculative in a sense, is this idea that are right now, at the current price we are at it seems like.

152

00:31:20.790 --> 00:31:31.020

Sylvain Chassang: Demand is a bit in the elastic Okay, and so changes in supply you know likely have a large price impact so that's an argument that that that key term this you know.

153

00:31:31.530 --> 00:31:39.990

Sylvain Chassang: The price, the impact of marginal production on the value of the rest of your production is going to be larger than negative right so.

154

00:31:40.290 --> 00:31:52.050

Sylvain Chassang: You know that's the view you'd have, if you think that we're now at a price quantity pair where demand is elastic and it's consistent with the you know, the fact that you know, maybe we are.

155

00:31:52.650 --> 00:32:04.770

Sylvain Chassang: lower consumption levels, but in some sense consumption that in elastic the users, that are still around are used to that really matter to us and so additional production would.

156

00:32:05.640 --> 00:32:14.640

Sylvain Chassang: Lower prices quite a bit, and you know that will make you the company work better that we reinforce cocktail discipline.

157

00:32:15.480 --> 00:32:20.970

Markus Brunnermeier: So what timeframe, do you have in mind here is, it is it more like over quarter.

158

00:32:21.930 --> 00:32:35.970

Markus Brunnermeier: Because they'll assistant of demand depends of course you know if the price is high for a while people have your just is, it is a if it's a more longer time frame than the elasticity is actually different than competitive it's a very short horizon change and you.

159

00:32:36.150 --> 00:32:41.100

Sylvain Chassang: know I mean that's for sure so it's quite plausible that if you are looking to look at.

160

00:32:41.130 --> 00:32:59.220

Sylvain Chassang: This demand, you know not average over a quarter, but average over a year or two years you know it would be much more elastic as people you know, as you know, people can find substitutes or people who are into production needs, you know, so I agree with this.

161

00:32:59.790 --> 00:33:01.950

Markus Brunnermeier: So, how does it change its quantity.

162

00:33:03.210 --> 00:33:09.420

Markus Brunnermeier: Considerations ever caught on that's probably the timeframe, you have to think about in this case now.

163

00:33:09.870 --> 00:33:13.260

Sylvain Chassang: I know I hear I don't know that that IQ is.

164

00:33:14.490 --> 00:33:18.420

Sylvain Chassang: Is is is necessarily something that happens at at.

165

00:33:19.980 --> 00:33:21.000

Sylvain Chassang: Set frequency.

166

00:33:25.500 --> 00:33:32.280

Sylvain Chassang: You know you're asking me something where I you know I don't have the data to give you a data driven answer, I think this is a this is.

167

00:33:32.880 --> 00:33:42.720

Sylvain Chassang: The fact that now the intuition that now i'm in the state of the demand, I think this is speculative I don't know how I don't have the data to draw for you the rest of the demand.

168

00:33:44.850 --> 00:33:46.350

Sylvain Chassang: So i'm going to punt on this question.

169

00:33:48.960 --> 00:33:50.430

Sylvain Chassang: Do you have an answer to the question mark is.

170

00:33:52.380 --> 00:34:00.540

Markus Brunnermeier: No, I don't that's why i'm asking the question to you, but I think probably to be more shorter time horizon perspective, you have here, no.

171

00:34:01.380 --> 00:34:17.790

Sylvain Chassang: No, I agree, so I agree, I think you know this in elasticity in demand, they really matter because they're very painful over the short run, you know over the medium run you know we have you know many good reasons to thing that these are much less painful.

172

00:34:18.900 --> 00:34:19.470

Sylvain Chassang: But you know.

173

00:34:20.040 --> 00:34:29.760

Markus Brunnermeier: But, in a sense, you can move things which are the delta P can move it to the delta V or that's it either shows up in depth, a P O w probably similar impact them.

174

00:34:35.940 --> 00:34:40.170

Sylvain Chassang: Sure, I yeah I think that's quite cozy but.

175

00:34:41.490 --> 00:34:45.210

Sylvain Chassang: The people who can have a price impact equity affected by books.

176

00:34:50.250 --> 00:34:51.840

Sylvain Chassang: Okay alright.

177

00:34:55.050 --> 00:34:58.020

Sylvain Chassang: So that's the argument you know that that's what you know.

178

00:34:59.400 --> 00:35:09.000

Sylvain Chassang: The reading you get of why it's been hard for suppliers to step up that production and why they've been unresponsive in the current setting you know.

179

00:35:10.470 --> 00:35:16.620

Sylvain Chassang: Even though the price is really high and it's above marginal cost for a lot of countries even outside of OPEC.

180

00:35:19.170 --> 00:35:26.880

Sylvain Chassang: Only good ballistic and collusive forces are you know sort of pushing producers away from increasing production.

181

00:35:27.780 --> 00:35:35.130

Sylvain Chassang: You know, in the case of OPEC and Russia, you know that equation should probably also include behavior thumbs you know, like you have to men.

182

00:35:35.610 --> 00:35:45.870

Sylvain Chassang: You know, read the marketing and Mohammed bin sound and who are you know what people and have an outsized impact on those decisions that are may not be profit driven and so.

183

00:35:46.440 --> 00:35:55.590

Sylvain Chassang: You know that's going to reinforce this package here, you know now i'm going to be other components to that than just you know check your profits.

184

00:35:55.980 --> 00:36:03.210

Markus Brunnermeier: logo Ellen has a question she says that you know the total oil in mind is actually below the pre call with level.

185

00:36:04.260 --> 00:36:17.550

Markus Brunnermeier: Because, China has huge lockdown experience, and all this in the still a week energy demand from their rest of their from the West that so she thinks that it's a war, the war in fashion.

186

00:36:19.080 --> 00:36:21.480

Sylvain Chassang: So I think that certainly.

187

00:36:22.680 --> 00:36:24.840

Sylvain Chassang: I think that's certainly consistent.

188

00:36:27.390 --> 00:36:29.040

Sylvain Chassang: But, again, I mean you know.

189

00:36:32.040 --> 00:36:41.550

Sylvain Chassang: So I mean you could have an argument, this is acting to stockpiling a violin of this is a you know, a it's the President had been going up before the price to Russia.

190

00:36:41.850 --> 00:36:52.590

Sylvain Chassang: I think they had a clear plan to not increase production too fast and that you know the con issues with Russia is just you know something that.

191

00:36:54.840 --> 00:37:03.450

Sylvain Chassang: You know kind of also in increases the gaffer's incentives to take advantage of.

192

00:37:04.470 --> 00:37:12.300

Sylvain Chassang: This moment to sustain super competitive prices, you know, but I think it's you know, the idea that Well now, I don't want it to.

193

00:37:12.690 --> 00:37:18.750

Sylvain Chassang: Not as the highest consumption level, and yet have high prices is consistent with the view.

194

00:37:19.350 --> 00:37:32.040

Sylvain Chassang: That i'm developing over here is really that are you know supplies not being competitive, you know supply is being at least early growth ballistic and you know, I think, very much conducive right so.

195

00:37:33.210 --> 00:37:35.670

Sylvain Chassang: Low quantities and high prices.

196

00:37:36.330 --> 00:37:43.410

Sylvain Chassang: You know that's a sign that supplies is being modest quicker than it should, so I think it's a consistent view that's consistent with.

197

00:37:44.430 --> 00:37:45.720

Sylvain Chassang: The one that i'm developing here.

198

00:37:48.960 --> 00:37:49.350

Sylvain Chassang: Okay.

199

00:37:53.190 --> 00:38:05.010

Sylvain Chassang: OK so that's one of the takeaways here and I want to insist on is up those guys just to went to a price war that just got out of it it's always tricky between Russia and of back.

200

00:38:07.110 --> 00:38:11.220

Sylvain Chassang: You can kind of understand why they don't want to deviate on Russia right now.

201

00:38:12.390 --> 00:38:19.380

Sylvain Chassang: Okay, and that I think it's important to have that in mind when you think of a white white doing those guys increase you know production.

202

00:38:20.850 --> 00:38:40.650

Sylvain Chassang: So now i'm going to take this view of you know markets has been capitalized and regroup holistic and you know use that use it to develop one policy proposal Okay, and the view is going to be that i've talked to jake an energy procurement so it's going to be the idea that.

203

00:38:43.710 --> 00:38:45.210

Sylvain Chassang: Well, good going to use.

204

00:38:46.470 --> 00:38:56.790

Sylvain Chassang: Some of our demand in a skeptic manner to support a Bernie siegel, which is that have stable.

205

00:38:57.870 --> 00:39:06.960

Sylvain Chassang: stable energy prices at some high, but he's in the booth target okay and i'm going to pretend that are let's imagine that we do this to.

206

00:39:07.500 --> 00:39:19.680

Sylvain Chassang: What i'm going to put up acumen board that is a subpar national entity that able to make advance purchase commitments so basically enter in bilateral for why the relationships with energy producers.

207

00:39:22.020 --> 00:39:26.910

Sylvain Chassang: You know there's clearly something you could discuss right so that that's the connection that entities.

208

00:39:28.020 --> 00:39:36.510

Sylvain Chassang: That did with energy market yeah yeah is one example, you know they don't do purchase themselves, they call an eight countries, I think there are ways to organize the purpose around you know.

209

00:39:36.930 --> 00:39:53.760

Sylvain Chassang: A scheme, like this one i'm going to i'm going to assume that we have this supernatural entity that's able to make this purchase commitments Okay, and you know behind this for you to have member countries, you know mandating the board to.

210

00:39:55.170 --> 00:40:09.660

Sylvain Chassang: allocate some of their long term demands at some agreed upon for our price, so what i'm going to call a high, but reasonable target price, if I had to imagine something i'd say you know seven US dollars a barrel.

211

00:40:11.760 --> 00:40:12.360

Sylvain Chassang: Okay.

212

00:40:13.500 --> 00:40:14.040

Sylvain Chassang: And then.

213

00:40:18.060 --> 00:40:33.840

Sylvain Chassang: that's what the board gets to play where it's going to use this endowment basically our purchasing capacity into it the first one is to affect the industry conduct to use to allocate the demand strategically to affect industry conduct.

214

00:40:34.860 --> 00:40:38.760

Sylvain Chassang: in three ways The first one is to encourage entry.

215

00:40:40.470 --> 00:40:49.200

Sylvain Chassang: Okay, the second one, it so that's dealing with the fact that you know you have high fixed costs in this market and the price is really, really very versatile just like.

216

00:40:49.800 --> 00:41:02.250

Sylvain Chassang: Marcus illustrator the beginning, the second one, and that one, and I think people can argue about how feasible, it is and what size of commitments you'd have to make, but it's going to be to potentially time we can just tell discipline.

217

00:41:04.290 --> 00:41:13.500

Sylvain Chassang: I you know I talked about this path in some more detail, and the third one, and I think this one is really important, when you think about the way.

218

00:41:15.120 --> 00:41:24.150

Sylvain Chassang: procurement is done in practice by firms well very good at this is basically to be to encourage self regulation by the Catholics to say are.

219

00:41:24.540 --> 00:41:35.700

Sylvain Chassang: You know sure we need to have some ammunition to deal with you know misbehavior sometimes but ideally what we'd like to do is sort of cooperate with the cocktail.

220

00:41:36.180 --> 00:41:48.360

Sylvain Chassang: You know, sometimes it's had we really would like to join the castle in a sense, you know and there's gonna be there's gonna dust date in a useful way with this perspective of you know resilience okay.

221

00:41:49.830 --> 00:41:55.950

Sylvain Chassang: The second aspect of the body processes is going to be to use the follow up supply it sources.

222

00:42:00.990 --> 00:42:08.700

Sylvain Chassang: To do two things The first one is to try and increase the elasticity of residual demand by allocating the supply.

223

00:42:09.330 --> 00:42:22.170

Sylvain Chassang: To the you know high willingness to pay in elastic components of demand so it's going to be suffering demand, and the second one is to try and encourage participation at scale by you know member countries.

224

00:42:24.330 --> 00:42:27.390

Sylvain Chassang: Okay alright, so the first step.

225

00:42:27.630 --> 00:42:40.980

Markus Brunnermeier: is to make sure that I fully understand, so the idea is not that the buyers form of a purchasing cartel and say we cut back on our demand today ideas much more I promise I will have some time on down the road in one or two years.

226

00:42:41.190 --> 00:42:42.570

Markus Brunnermeier: Absolutely suppliers, so I.

227

00:42:42.570 --> 00:42:42.960

Sylvain Chassang: mean a.

228

00:42:43.860 --> 00:42:50.460

Markus Brunnermeier: Cutting back I make essentially offer some supply demand certainty for the next few years.

229

00:42:50.520 --> 00:42:54.600

Sylvain Chassang: Exactly I mean it's very closely related to this idea of you know.

230

00:42:54.840 --> 00:43:01.620

Sylvain Chassang: Advanced market commitments that you know will use your during Operation warp speed to work your market for the vaccines.

231

00:43:03.120 --> 00:43:11.280

Sylvain Chassang: You know it's it's really about using potentially expanding demand and medium term demand in a strategic way.

232

00:43:13.260 --> 00:43:19.050

Sylvain Chassang: The first way to use this demand is is going to be to anchorage entry, and so we could talk about you know.

233

00:43:20.400 --> 00:43:33.180

Sylvain Chassang: You know, people are drilling Shell people in the permian basin, you know how do we get more of these producers to enter, especially since you know those guys can actually get to production volatility fast.

234

00:43:34.380 --> 00:43:45.240

Sylvain Chassang: And then that's really going to be the standard use of advance commitments is going to be to de risk entry for margin is a place right now prices, a year from now available at it.

235

00:43:45.720 --> 00:43:53.280

Sylvain Chassang: That could be another block in demand that could be another price war it's not it's a it's just a really hard entry decisions.

236

00:43:53.880 --> 00:44:04.260

Sylvain Chassang: The Shell industry gotten burned, you know by price wars that happened in you know, in the recent but bumps in places that happened in the recent past, you know it's difficult for them to enter.

237

00:44:05.340 --> 00:44:08.910

Sylvain Chassang: Alright, so it didn't have to happen in equilibrium, or is it just them.

238

00:44:08.970 --> 00:44:13.440

Sylvain Chassang: off equilibrium separate so I come to this so.

239

00:44:15.600 --> 00:44:24.930

Sylvain Chassang: And I think you want a bit of both So if you think about the way you know really good procurement officers and manage their suppliers you think about you know, the way to.

240

00:44:25.620 --> 00:44:35.850

Sylvain Chassang: manage you know it's part supplier, you know one aspect is to always ensure that you have multiple suppliers, that you can go to enough suppliers, that you can go to.

241

00:44:36.750 --> 00:44:40.560

Sylvain Chassang: And another aspect of this is that are you don't you know.

242

00:44:41.250 --> 00:44:49.050

Sylvain Chassang: You don't punish you punish them just because i'm making a profit, in fact, you want them to make a profit, so that are around in the first place right, so if.

243

00:44:49.320 --> 00:44:53.430

Sylvain Chassang: If Toyota always allocated to the smallest bitter to the lowest bidder.

244

00:44:53.760 --> 00:45:09.390

Sylvain Chassang: Maybe you'd have you know one or two guys and you wouldn't have a competitive fringe to discipline the market, so you need to give you know your suppliers some fat to eat off of so that they stick around so that they provide you with you know.

245

00:45:10.560 --> 00:45:24.180

Sylvain Chassang: How to contact dimensions of service like quality just in time provision that you know they won't screw you over the moment your week right right now, we would like a back to you know play ball, a little bit you know.

246

00:45:25.260 --> 00:45:29.880

Sylvain Chassang: That there is no contract between you know OPEC and West and.

247

00:45:31.740 --> 00:45:38.760

Sylvain Chassang: consuming countries you know, we would like to have a more productive relationship, and so I think you want to do a bit of both you want to have.

248

00:45:39.450 --> 00:45:51.930

Sylvain Chassang: Some understanding of how to maintain a competitive French, but you only want to scale it up and get really aggressive with the use of this, you know measures if your supplier partners.

249

00:45:52.350 --> 00:46:00.450

Sylvain Chassang: don't play ball okay someone talk about nonspecific identity is on the questions i'll come to that in a second okay so.

250

00:46:02.970 --> 00:46:16.830

Sylvain Chassang: The way you do this entity for marginal suppliers, is to be with them into long term medium term, you know I think you know the Shell and you shall well.

251

00:46:17.880 --> 00:46:25.980

Sylvain Chassang: own way and in the industry is funny you know profitable over two years so that's that might be the time horizon, you need to start making a difference.

252

00:46:26.610 --> 00:46:32.940

Sylvain Chassang: So you enter this medium or long term bilateral forward contract at this hybrid reasonable prices that's going to be a theme.

253

00:46:33.900 --> 00:46:42.090

Sylvain Chassang: And importantly you don't put them on the open futures market, because then the contract could be picked up by anybody, including Saudi Arabia.

254

00:46:42.450 --> 00:46:50.070

Sylvain Chassang: But because you want to specifically get more entry, because then once they're around they can compete you want to target these contacts.

255

00:46:50.400 --> 00:47:00.540

Sylvain Chassang: To entrance Okay, and this could be 10 times in the standard, you know I am gas market will curse will also be antennas that are going to make a difference on the you know.

256

00:47:01.320 --> 00:47:05.580

Sylvain Chassang: Also on the gas market for, for instance, it could be the new urban a capacity right So if you have.

257

00:47:06.150 --> 00:47:17.100

Sylvain Chassang: It could be also supporting infrastructure, so you know somebody that enters and has you know electricity grid solutions or you know electricity storage solutions.

258

00:47:17.550 --> 00:47:29.400

Sylvain Chassang: Also, essentially, you know reduces demand for gas in the medium run Okay, so I think these are all part of you know, the mandate of the board.

259

00:47:30.990 --> 00:47:40.710

Markus Brunnermeier: So the Board has to act very strategically, so it has to be a bunch of game theorists and copper, combined with an illogical knowledge.

260

00:47:40.770 --> 00:47:48.300

Sylvain Chassang: yeah and actually I think finance people, so I think you know I think there's a lot of understanding of what affects the price of gas that comes from.

261

00:47:49.710 --> 00:47:50.280

Sylvain Chassang: You know.

262

00:47:51.630 --> 00:48:02.010

Sylvain Chassang: People who bet on the price of gas and so and understanding how you finance this theme this this object this institution, I think, is really important, for you know political.

263

00:48:03.450 --> 00:48:13.020

Sylvain Chassang: expediency as well, you want to make sure that it's financed in the way that doesn't you know leave you know participating Members with a large bill at the end of the day.

264

00:48:14.580 --> 00:48:25.380

Markus Brunnermeier: Well let's suppose, this is agency is an international agency, then there are also this national interest coming into place this additional challenge, how would you deal with that.

265

00:48:26.220 --> 00:48:27.060

yeah.

266

00:48:31.530 --> 00:48:41.220

Sylvain Chassang: I think it's a little bit, what I find helpful here is, I think a lot of this can be done, you don't need that much coordination to do a plan minus.

267

00:48:41.550 --> 00:48:49.050

Sylvain Chassang: I think this is, you know something that the US could do, on its own, I think it's something that the you could do, on its own, probably with different targets for entry.

268

00:48:49.500 --> 00:48:59.700

Sylvain Chassang: I think you probably want to coordinate it in the in the way the IAEA coordinates you know other reserves, so that you know we don't target the same people.

269

00:49:01.470 --> 00:49:17.400

Sylvain Chassang: But you know, is the US unilaterally decides to give you know to your you know fall out contacts to its own Shell industry, you know, maybe this needs to be negotiated survey it's not a breach of you know.

270

00:49:20.610 --> 00:49:35.970

Sylvain Chassang: w to rules, but I think that could be pretty effective if you're up decides to finance, you know better electricity grid or, better, you know ma liquid natural gas seminars or no gas connections between Spain and the rest of Europe.

271

00:49:36.990 --> 00:49:54.210

Sylvain Chassang: I think that's quite effective, even in the alternative, do you not you know you need latter hardway so this could be a pitch for using not just you know releasing this hydrogen reserves when it's needed but also sourcing strategy I resolve in a particular way.

272

00:49:55.800 --> 00:49:56.250

Sylvain Chassang: Okay.

273

00:49:57.150 --> 00:50:03.420

Markus Brunnermeier: So coming back to the only thing, so you and you think the coordination is much easier because it's not about restricting the on demand.

274

00:50:03.480 --> 00:50:06.030

Markus Brunnermeier: Absolutely extended guarantees for them right.

275

00:50:06.720 --> 00:50:19.560

Sylvain Chassang: that's exactly right if it's about a juicing all demands are you know if prices are low and i'm going to just you know i'd like to buy a little bit on the side here, you know you're expanding demand.

276

00:50:20.190 --> 00:50:33.930

Sylvain Chassang: You know you hope that the prices are no but it's not like you want to take advantage of it immediately right, so I think the the nature of incentives, you have some issues that are when people participate at scale if they don't like this idea, you know I mean in some sense, you know.

277

00:50:35.250 --> 00:50:49.290

Sylvain Chassang: When you are granting demand at some horizon is you're basically and dialing the purchase for with a put option, you know that has some value that's roughly you know 10% of the strike price, you know in because i'm looking at pressure that are.

278

00:50:50.520 --> 00:50:53.280

Sylvain Chassang: Out of the money they some cost to that.

279

00:50:54.930 --> 00:51:10.680

Sylvain Chassang: there's also organizational cost, but these are much smaller in some sense, then I you know, did you sing no no i'm gonna have to tell people that they can only take the car every other day, or you know they're gonna have to listen click electricity consumption.

280

00:51:12.810 --> 00:51:19.860

Markus Brunnermeier: So what this proposal be helpful in order to get more energy independent down the road or is to hold focus.

281

00:51:20.430 --> 00:51:21.510

Sylvain Chassang: I think that's exactly.

282

00:51:22.140 --> 00:51:26.610

Sylvain Chassang: So i'm gonna let me talk about this to balance again, so I got.

283

00:51:28.290 --> 00:51:48.240

Sylvain Chassang: You how how, how does a clever procurement office manage its the fires, it keeps enough of them around so you know you're more resilient if you have more sources and that's part of the mission of the board to keep enough sources of supply around.

284

00:51:50.700 --> 00:51:52.170

Sylvain Chassang: Even if they're in the medium run.

285

00:51:53.490 --> 00:52:02.430

Sylvain Chassang: The other one is to use this this this tool, and in particular on the scale it up, you know, instead, you know, make it.

286

00:52:03.990 --> 00:52:04.980

Sylvain Chassang: more aggressive.

287

00:52:07.440 --> 00:52:14.550

Sylvain Chassang: Only if the supplier you're dealing with refused to play ball and i'm going to come to that in a second and just give me give me a moment.

288

00:52:16.110 --> 00:52:22.290

Sylvain Chassang: Okay, a couple of things you know, one of the issue with this is the increases supplying the future rather than now.

289

00:52:22.860 --> 00:52:33.150

Sylvain Chassang: I mean the future could be the near future, but then again, you know carolyn and future prices are related to stockpiling so no there's an argument that this will also relax prices now.

290

00:52:34.350 --> 00:52:34.620

Sylvain Chassang: alright.

291

00:52:37.140 --> 00:52:41.190

Sylvain Chassang: Alright, that is also a point so we're going until 130 Is that correct.

292

00:52:41.850 --> 00:52:43.710

Markus Brunnermeier: Yes, we can go a little bit further.

293

00:52:45.210 --> 00:52:47.340

Sylvain Chassang: Okay, so I have.

294

00:52:49.320 --> 00:52:50.820

Sylvain Chassang: A few things to go over.

295

00:52:52.830 --> 00:52:53.430

Markus Brunnermeier: Take your time.

296

00:52:54.030 --> 00:52:55.320
Sylvain Chassang: yeah no.

297
00:52:56.340 --> 00:52:57.150
Sylvain Chassang: It is what it is.

298
00:53:01.290 --> 00:53:02.100
Markus Brunnermeier: To go to.

299
00:53:02.400 --> 00:53:05.850
Sylvain Chassang: All right, yeah I keep it within the time allotted.

300
00:53:07.620 --> 00:53:19.470
Sylvain Chassang: A second news of demand is this idea of encouraging deviations right it's saying, whatever applies for entrance you could also apply for people who are already existing our producers.

301
00:53:19.860 --> 00:53:24.630
Sylvain Chassang: And you know essentially also give them long term bilateral for contacts.

302
00:53:25.020 --> 00:53:41.280
Sylvain Chassang: Is that you need to sort of essentially instruct them for their existing production because these people can serve, can you know suffer farm you know in phenomenal price impact so far from price wars, she would need to allocate them a fair amount of far demand to be effective.

303
00:53:42.480 --> 00:53:58.230
Sylvain Chassang: You know, I think, is just the realistic right right now, Saudi Arabia is not increasing its production because it wants stuff from the US, you know, and it was complicated stuff as much as that he wants higher prices, but it also wants, you know.

304
00:53:59.280 --> 00:54:09.990
Sylvain Chassang: nbs to be passing again, you know, and they want weapons and they want you know intelligence, you know so when you give them an exchange maybe a bit complicated.

305
00:54:10.380 --> 00:54:22.320
Sylvain Chassang: And that's clearly a dimension of the issue right now right like if they produce more is basically deviation in the you know essentially contact with Russia.

306
00:54:22.800 --> 00:54:29.430

Sylvain Chassang: They need to be insured against the consequences of those deviation, this is a little hard, because you need more resources for that.

307

00:54:30.960 --> 00:54:32.070

Sylvain Chassang: So I think.

308

00:54:32.100 --> 00:54:38.910

Markus Brunnermeier: Police making these decisions they can't be outsourced to a board, but it has to be the President of United States deciding.

309

00:54:38.970 --> 00:54:39.870

I guess sure.

310

00:54:42.390 --> 00:54:50.400

Sylvain Chassang: Absolutely, you know, but I mean, I think it depends on the magnitude that we're talking about so if we talk about a board that has you know fall on demand of 2%.

311

00:54:51.270 --> 00:55:00.390

Sylvain Chassang: You know, consumption, I think it's quite reasonable that you could look at that externally, I think you know the you know the Fed has been dealing with a lot more money.

312

00:55:01.500 --> 00:55:07.500

Sylvain Chassang: You know whether you allocate that you know if you need more, I think, at some point, you need some political.

313

00:55:08.940 --> 00:55:20.070

Sylvain Chassang: backing for this, but I think it's also important to announce that it's I think it's also important, they should be credible that you're going to scale up in case.

314

00:55:21.630 --> 00:55:28.740

Sylvain Chassang: The cocktail in some sense refuses to play draw and regulate supply and so.

315

00:55:29.670 --> 00:55:41.130

Sylvain Chassang: I think one of the aspects that you know I would have liked to come to earlier, but that i've alluded to, for a bit is this idea that if you are successful procurement board.

316

00:55:41.820 --> 00:55:51.720

Sylvain Chassang: You don't try to find the cocktail sort of this thing of you know you want to talk softly and carry a big stick you want to try and.

317

00:55:52.380 --> 00:56:00.060

Sylvain Chassang: cooperate with your suppliers, while having some firepower behind if they choose not to cooperate.

318

00:56:00.540 --> 00:56:16.290

Sylvain Chassang: And I think this is where there is a policy outcome that's something i'm going to call you know when when outcome for suppliers buyer in the environment, and you know it's the idea that our view objective need not be to have very low energy prices.

319

00:56:17.370 --> 00:56:26.400

Sylvain Chassang: But you know stable reasonably high prices might be a good goal right, and so you know that's a policy outcome.

320

00:56:28.140 --> 00:56:45.030

Sylvain Chassang: That you know, has something for you know suppliers, consumers and environmental stakeholders, which is kind of all of us right and concurrently the way you do, that is to condition the scale of the bottom mandate.

321

00:56:46.380 --> 00:56:57.030

Sylvain Chassang: On energy prices right, so that you know if the suppliers play ball and they agree to enter a cooperative relationship.

322

00:56:57.960 --> 00:57:09.120

Sylvain Chassang: You know, then you don't try to destabilize the CAFE too much you know you just have some small advance purchase capacity to keep some suppliers around, especially with the new energies.

323

00:57:09.750 --> 00:57:17.160

Sylvain Chassang: But then, you have a commitment to provide a much bigger share of you know your consumption through advanced purchasers.

324

00:57:17.850 --> 00:57:33.030

Sylvain Chassang: who died at advanced purchasers is a prices remain high, and they use that to destabilize the cocktail in you know, whatever way you can you know what this does is it gives the casper incentives and suppose incentives to be responsible partners.

325

00:57:34.260 --> 00:57:45.900

Markus Brunnermeier: So you would specify this in the Lord will be very clear that if the old price will go above hundred, then we would destabilize the kotel, and this would be squad want to purchase agreements.

326

00:57:45.930 --> 00:57:46.980

Sylvain Chassang: And this yeah I think.

327

00:57:47.610 --> 00:57:48.540

Sylvain Chassang: You know, I think.

328

00:57:50.130 --> 00:57:58.110

Sylvain Chassang: You know I would think about a couple of things I would think of a making it work to small scale, so that you know how you get some credibility.

329

00:57:58.920 --> 00:58:08.160

Sylvain Chassang: The second is I think it's important not to overlook the fact that the sort of individuals that are making decisions behind this, and so I think you know.

330

00:58:08.550 --> 00:58:15.600

Sylvain Chassang: Even though this is sort of the spirit of the way you do this is by having a thread that you can scale up in a reasonably.

331

00:58:16.110 --> 00:58:26.250

Sylvain Chassang: credible way I don't think you'd want to announce it in this sort of aggressive way I think you'd like me to work through it for diplomatic channels, I mean part of the reason.

332

00:58:26.250 --> 00:58:29.490

Sylvain Chassang: For it or why the OPEC is not you know playing ball now is.

333

00:58:29.910 --> 00:58:44.820

Sylvain Chassang: My having been someone has been passing on on graph for a couple of years, for good reason, but it's one guy who's pissed off, and that makes a big difference, and so I think it's really important to take that into account, you know I think you know you'd want to think through this.

334

00:58:45.030 --> 00:58:48.870

Markus Brunnermeier: So, but then you're saying you can't have clear rules, it is morning.

335

00:58:49.590 --> 00:58:52.620

Sylvain Chassang: I mean you know I think you need to build credibility.

336

00:58:52.830 --> 00:59:01.050

Sylvain Chassang: And I think you can build credibility, I think this is the speak softly, but carry a big stick, you can be credible, but not be.

337

00:59:02.130 --> 00:59:09.300

Sylvain Chassang: You know sort of in your face about it, you know if you don't do this, then that about setting and motivated people don't react well to activate once.

338

00:59:13.800 --> 00:59:16.350

Sylvain Chassang: Somebody has raised their hand you want to take this or.

339

00:59:16.470 --> 00:59:19.950

Markus Brunnermeier: let's just move on, because we have a little bit time constraints.

340

00:59:20.040 --> 00:59:20.370

OK.

341

00:59:22.710 --> 00:59:32.100

Sylvain Chassang: OK briefly for how to support your supply you know one thing that I think is useful, is once you have source supply.

342

00:59:32.700 --> 00:59:44.430

Sylvain Chassang: You want to prioritize allocation to the inelastic high value components of demand, so the people who are still consuming now and contact us that consumption, even though the prices are very high.

343

00:59:45.180 --> 00:59:55.380

Sylvain Chassang: Okay, and what that does is it increases the elasticity of demand and it makes the you know the residual demand discipline the market better okay so.

344

00:59:55.920 --> 01:00:08.640

Sylvain Chassang: there's also a supply side functioning of the board that I think is useful Okay, let me skip on this now, some questions of interest, the Europeans to encode communities one.

345

01:00:10.200 --> 01:00:16.170

Sylvain Chassang: For advanced purchase boards vaccines and application works, we did another Okay, I want to.

346

01:00:16.200 --> 01:00:22.950

Markus Brunnermeier: Do is again this is in spirit, is this the same, what do you show money tried to propose.

347

01:00:22.950 --> 01:00:25.110

Sylvain Chassang: fool yeah so I can't let me.

348

01:00:25.260 --> 01:00:36.360

Sylvain Chassang: So y'all can see and community, there is a clear path right so well, I have a crisis it's one of our tool it's much worse, but Europe needs to be rebuilt.

349

01:00:37.110 --> 01:00:47.820

Sylvain Chassang: there's limited resources on the Marshall Plan, and there is a very strong Germans to encode capital that you know the American thing is responsible for World War Two essentially.

350

01:00:50.010 --> 01:00:56.730

Sylvain Chassang: The SEC, which is the you know quicker so to the European Union is set up as a bias cocktail.

351

01:00:57.270 --> 01:01:11.190

Sylvain Chassang: works through the men reduction, so it works differently and it's able to do so, because you know the purse is very centralized basically Marshall funds, you know so that it's much easier to centralize purchases.

352

01:01:11.850 --> 01:01:23.580

Sylvain Chassang: There is a mandate from the US and pleasure to you know build antitrust law at the time, so there are similarities than differences, you know, so it shows it's possible you know slightly different times to.

353

01:01:26.700 --> 01:01:34.710

Sylvain Chassang: Okay, two places I want to talk about the first one is this idea of taxing rush, and I, the second one is having a price gap.

354

01:01:35.430 --> 01:01:43.500

Sylvain Chassang: Okay, Russia and I, you know usual concerns you know taxing rationalize our distributional issues taxes on that, but.

355

01:01:44.430 --> 01:01:48.900

Sylvain Chassang: It could increase prices at them have high inflation and it's a very visible price.

356

01:01:49.710 --> 01:01:59.160

Sylvain Chassang: here's what we have to contribute, the difference is a lot of this argument that says, are the price of the marginal cost of extracting over Russia is \$6 a barrel.

357

01:01:59.700 --> 01:02:08.280

Sylvain Chassang: So even if we tax Russia lot, they would still put us and not only that consumers can substitute to other sources from other producers.

358

01:02:08.670 --> 01:02:20.010

Sylvain Chassang: You know I think that's a really correct view if you're dealing with a competitive market, maybe even find the legal market it's just not quite right for collusive market, the first is.

359

01:02:21.360 --> 01:02:33.450

Sylvain Chassang: You know they don't have to produce and they may choose not to, and I think they they may well choose not to you know they they have he goes up there as a strategic player with price impact they could choose not to and then my will not.

360

01:02:34.260 --> 01:02:47.970

Sylvain Chassang: continue supplying the second point which I think is you know even more likely is that there is no reason for us back to accommodate increase the map there man, but then they just got out of a price for there's an uneasy truth.

361

01:02:48.480 --> 01:03:05.580

Sylvain Chassang: They may just choose not to increase production and let the prices shoot up Okay, and so it, you know, to me, the argument that are, this is a Buddhist said that the cost of which would be borne by Russia not consumers is true in a competitive market not quite right, inclusive market.

362

01:03:07.830 --> 01:03:09.480

Sylvain Chassang: Second policy price caps.

363

01:03:10.500 --> 01:03:18.060

Sylvain Chassang: At you know super intuitive and attractive to people on the street, every time it's offered economist thinks it's a terrible idea.

364

01:03:19.170 --> 01:03:34.050

Sylvain Chassang: I think it's one of the cases in which it is not a terrible idea Okay, and the reason for this is a price CAP, you know it's a bad idea, when you have a competitive market, but we don't have a competitive market, why do we have essentially a bilateral bargaining relationship.

365

01:03:35.130 --> 01:03:45.750

Sylvain Chassang: And so the rationale for ice caps is the same one as the rationale for having a reserve price when you run an auction when you run an option i'm not too many people who can participate.

366

01:03:46.140 --> 01:03:54.420

Sylvain Chassang: You put a reserve price, and you know they're going to be a brother has a price that lives too inefficient trade some of the time, but it extracts of better terms as well.

367

01:03:55.200 --> 01:04:13.650

Sylvain Chassang: priced Apps they merely to rationing, but if you're facing a non competitive market, it may also you know effectively did you improve your terms of faith and sometimes even without reducing supply it's not granted to me that there would be a reduction in supplies they put Christ CAP.

368

01:04:14.760 --> 01:04:14.910

Sylvain Chassang: The.

369

01:04:15.300 --> 01:04:21.060

Markus Brunnermeier: instrument, the level of the price CAP, I mean probably depends a lot like there is certainly an option, where your.

370

01:04:21.090 --> 01:04:22.920

Markus Brunnermeier: Size business similar reasoning.

371

01:04:23.160 --> 01:04:29.340

Sylvain Chassang: yeah I think you'd have to do something I think you could do it in a constructive way and i'm going to develop this in a moment.

372

01:04:29.700 --> 01:04:33.450

Sylvain Chassang: Okay, because I think again, I think there is a way to do that in a way that's.

373

01:04:35.580 --> 01:04:47.040

Sylvain Chassang: Collaborative with suppliers, rather than purely aggressive and I think it's the way it should be done if you were forcing me to you know spit out a number right now it's a \$70 a barrel, and I cannot explain you why.

374

01:04:49.560 --> 01:04:55.050

Sylvain Chassang: Okay, the way you know that's some issues related to this, because.

375

01:04:56.220 --> 01:05:06.240

Sylvain Chassang: You know pies kept kind of had use entry and within emrys important right now million to rationing and we would need a plan for that it's also complex logistically because you need to band side purchases.

376

01:05:08.430 --> 01:05:17.820

Sylvain Chassang: One thing that you know, for which we've done work on and that we deliver that actually quite successful to do with a capitalized set of suppliers.

377

01:05:18.270 --> 01:05:24.870

Sylvain Chassang: and especially to improve entry and make collusion more difficult, is to not just have price caps which you said.

378

01:05:25.350 --> 01:05:38.160

Sylvain Chassang: The price cannot go above a certain level but also have price floors so you'd say something along the lines are the price cannot go above \$90 a barrel, but also cannot go below \$60 a barrel.

379

01:05:38.850 --> 01:05:44.820

Sylvain Chassang: And that that's too thin air that increases entry, because now, I know that I have a minimum price that's pretty good.

380

01:05:45.870 --> 01:05:53.790

Sylvain Chassang: It describes cattle discipline, because now, the scope for price wars, is much smaller the scope on platform price impact is much smaller.

381

01:05:54.750 --> 01:06:07.380

Sylvain Chassang: The second aspect of this is that it favors cooperation between buyers and suppliers, the God is not our unlimited low prices, you know it's let's stay within some reasonable band, so that you know.

382

01:06:08.550 --> 01:06:13.410

Sylvain Chassang: There is some price action there is some price signal, but we stay within something that's reasonable.

383

01:06:13.740 --> 01:06:28.440

Markus Brunnermeier: Okay, just to make sure if a guy's floor in the base for up to \$6 I would say, I still buy it at \$20 I pay us an extra \$40 why by its scale up my demand such that the price goes back up to \$20 and put it in strategic or serves.

384

01:06:30.570 --> 01:06:32.010

Markus Brunnermeier: The floor be enforced.

385

01:06:32.130 --> 01:06:44.730

Sylvain Chassang: So I mean it's a sort of depends on the way you do it, I think you could put it, you know, in the same way that you put a cap, you know it's kind of like go and have a market that you're organizing you should put a lower CAP.

386

01:06:46.170 --> 01:06:58.110

Sylvain Chassang: You know, you might have oversupply and you should have a horse to do that so yeah you know rationing and so that's why you know in some sense this is not the poppers and I lead with.

387

01:06:59.940 --> 01:07:05.010

Sylvain Chassang: National either supply or demand requires some.

388

01:07:06.660 --> 01:07:14.130

Sylvain Chassang: Logistical power, you know that is a challenge, and that you know you think yeah needs to be foot.

389

01:07:15.180 --> 01:07:16.020

Sylvain Chassang: So you know.

390

01:07:17.100 --> 01:07:19.110

Sylvain Chassang: We, we see that all the time in.

391

01:07:21.300 --> 01:07:29.190

Sylvain Chassang: pokemon by government in which that procuring services, so when a suppressive a but there you know sort of our we don't build a school this year if you.

392

01:07:29.790 --> 01:07:38.700

Sylvain Chassang: Trade or we just pray you know it's kind of the other what they do is they don't recall the lower price, so you know you'd get into trouble as a government.

393

01:07:39.630 --> 01:07:47.610

Sylvain Chassang: If somebody bid you know quite you know, and you accepted that's higher, because then it looks like you're basically corrupt.

394

01:07:47.940 --> 01:07:58.890

Sylvain Chassang: You know the way they do it is just by not letting people a bit too low and it's just you know that as a strategy, so they don't create the data in which they you know refuse an offer that's better.

395

01:08:03.210 --> 01:08:15.420

Sylvain Chassang: Okay, I think, over time, you know, the one thing I like about this last thing I like about this pie for Is it also plausibly supports emissions goals by keeping the price of energy high just reasonably high level.

396

01:08:16.290 --> 01:08:23.100

Sylvain Chassang: I think I might have time we could talk about demand management, but I think this is quite different from what i've talked about so i'm going to enter.

397

01:08:25.290 --> 01:08:28.050

Markus Brunnermeier: A thanks eliza a couple of more questions.

398

01:08:28.260 --> 01:08:28.590

sure.

399

01:08:30.870 --> 01:08:43.530

Markus Brunnermeier: So, of course, if you want to implement this does the European Union have to change its competition law, do you know, that is, it is it consistent with the current competition or could one country or some companies just make this.

400

01:08:44.280 --> 01:08:48.750

Markus Brunnermeier: at once purchase agreements are this forward agreements, or is this all consistent with.

401

01:08:50.160 --> 01:08:54.810

Markus Brunnermeier: Our competition or is very much driven in the thinking of you know non strategic.

402

01:08:54.840 --> 01:08:59.490

Sylvain Chassang: Partner yeah no I mean I mean I remember yeah I think the zoom up you know.

403

01:09:00.090 --> 01:09:12.450

Sylvain Chassang: Presumably, may I am just not there yet another person to this question, I think, presumably, you need to think this through you know existing constraints that come from the World Health organization's.

404

01:09:13.200 --> 01:09:19.230

Sylvain Chassang: Similar constraint may exist within Europe, I think you're right, I think this you need to think how this deals with.

405

01:09:20.340 --> 01:09:20.820

Sylvain Chassang: You know.

406

01:09:22.080 --> 01:09:34.230

Sylvain Chassang: You know, basically anti competitive measures, I think, energy is a bit of a specific sector, because I think, because it is such as a public sector, I think it may be, you may be able to get exceptions for this.

407

01:09:35.820 --> 01:09:38.130

Sylvain Chassang: But you know yeah I think it's fine.

408

01:09:39.420 --> 01:09:51.720

Markus Brunnermeier: And you know, there are two ways to approach this one is to say, oh, the Heads of States making this decisions because it involves, as you said, you know other big persons that involves.

409

01:09:53.580 --> 01:09:57.360

Markus Brunnermeier: Strategic and arms steals and other things at the end of the day.

410

01:09:57.990 --> 01:10:01.320

Markus Brunnermeier: Or do you think there is, it should be outsourced to an agency.

411

01:10:01.590 --> 01:10:10.410

Markus Brunnermeier: like an agency which is independent, because there's some like for central banking there's a time and consistency problem and that, because of the San Francisco problem we outsource it to an agency to overcome.

412

01:10:10.800 --> 01:10:25.410

Markus Brunnermeier: His time consistency problem what they said hey do institutional structure and the ideal processes to come to this strategic thinking and there has to be a board of experts, making recommendations, but who ultimately will make the decision.

413

01:10:27.300 --> 01:10:29.220

Sylvain Chassang: yeah it's a good question.

414

01:10:30.540 --> 01:10:38.010

Sylvain Chassang: I mean, I think it's good to have technocrats, so that politicians can blame you know when things are not Okay, and I think it's probably a useful.

415

01:10:38.430 --> 01:10:41.880

Markus Brunnermeier: resource, on the other hand, you also want to have accountability, in a sense.

416

01:10:43.260 --> 01:10:52.230

Sylvain Chassang: yeah absolutely I think you know, I think that sort of two levels, I think, if you just think about the beginning of this where you are, you know.

417

01:10:55.170 --> 01:11:04.770

Sylvain Chassang: let's say you're pledging 2% of your dinner Okay, I think this maybe you could tie it up, maybe it isn't about that you could try at the beginning to get up process started to get.

418

01:11:05.250 --> 01:11:11.700

Sylvain Chassang: A set of you know rules to have it, who some somebody you could also do you left early yeah but yeah some country.

419

01:11:12.360 --> 01:11:19.260

Sylvain Chassang: I think, surely you know you need political by and if you need to go about you know if you really need to scale up.

420

01:11:20.100 --> 01:11:30.150

Sylvain Chassang: You know this adventure process contract in a big way again, I think one thing that's nice for this is that I don't think you need that much.

421

01:11:30.540 --> 01:11:43.440

Sylvain Chassang: Coordination between buyers to start having something that works, I think the incentives to join such a purchase bought actually pretty good you know I haven't talked about this, but you could think of.

422

01:11:44.070 --> 01:11:58.080

Sylvain Chassang: allocating more of the source supply to participants that have participated at scale in the you know early on them, so I think the incentives to join actually not that bad.

423

01:11:59.730 --> 01:12:01.740

Sylvain Chassang: As to how it should be run, you know.

424

01:12:03.210 --> 01:12:07.920

Sylvain Chassang: I think we have some examples on how to try to do this, but it's not like i'm not.

425

01:12:10.170 --> 01:12:11.370

Sylvain Chassang: Controversial you know but.

426

01:12:12.450 --> 01:12:19.920

Sylvain Chassang: You know, central banks to me are good example of you know yeah they have a lot of power, they are submitted to some oversight.

427

01:12:20.400 --> 01:12:25.140

Sylvain Chassang: But they get to do a lot of you know, to have a lot of impact on markets as well, and I think it's.

428

01:12:26.100 --> 01:12:34.530

Sylvain Chassang: that's one mother va is another model where there it's just coordinating actions you're serving as a coordinate you you elaborate policies.

429

01:12:34.950 --> 01:12:48.030

Sylvain Chassang: You coordinate time you know coordinate information and coordinate procedures and then you let individual actors follow up on the recommendations, you make you know that's another way to go about.

430

01:12:49.110 --> 01:12:57.090

Markus Brunnermeier: So, you mentioned that you know the US could take a lead, or the European Union could take a lead and this advance purchase agreement or the other strategic moves.

431

01:12:59.250 --> 01:13:06.720

Markus Brunnermeier: Which of the two has a better I mean of a different, in a sense, us is an energy exported Europe is very much an energy important.

432

01:13:07.740 --> 01:13:16.650

Markus Brunnermeier: Would you say us in a better position or Europe is in a better position or both should move ahead and let's suppose if they can't coordinate among themselves.

433

01:13:17.940 --> 01:13:24.630

Markus Brunnermeier: And what role should like countries like China or India play do they have the same same incentives, like the rest of the world.

434

01:13:25.770 --> 01:13:33.570

Sylvain Chassang: I mean, so you know I think in the US, I think it's actually a pretty clear case right, and I think somebody was referring to proposals that.

435

01:13:35.100 --> 01:13:50.340

Sylvain Chassang: Law, and I think was referring to you know pretty similar proposal have been made, and I think you know I think the US has a pretty clear use case because you're basically doing internal transfers, if at all.

436

01:13:52.110 --> 01:14:09.750

Sylvain Chassang: So I think the US, but perhaps the place, I would say it's also you know the Shell, you know share producers, otherwise you know got pretty burned so they're not willing to come in, but at the same time, these are sort of the the wealth that could be put into you know.

437

01:14:11.430 --> 01:14:16.170

Sylvain Chassang: That could be producing quite fast, so I think it's a case.

438

01:14:17.490 --> 01:14:26.910

Sylvain Chassang: What you're doing you're really you may want to be doing different things in Europe, you know you know because there's less clear how you you don't have an internal.

439

01:14:28.710 --> 01:14:36.360

Sylvain Chassang: sort of suppliers, I think it's a little harder, but you might be able to play with the electricity market, so there are a number of places that you could take with electricity market.

440

01:14:37.080 --> 01:14:46.560

Sylvain Chassang: to sort of encourage and in Europe, whether whether it's storage, whether it's you know for pick pricing solutions right so.

441

01:14:47.640 --> 01:14:57.150

Sylvain Chassang: You know, in Europe, one thing that you have is you have you know less less than in the US and Asia, but you have reasonably good penetration of.

442

01:14:58.530 --> 01:15:13.380

Sylvain Chassang: Smart electric meters, if you use those to do you know, Lord you know, keep pricing, you would use gas demand and that's a possibility that you know could be useful there so by you know contact you know so that that's an angle, you could take there.

443

01:15:14.250 --> 01:15:17.040

Markus Brunnermeier: So, can you can you elaborate on this, so if I have smart meters.

444

01:15:17.430 --> 01:15:18.510

Markus Brunnermeier: And I.

445

01:15:18.720 --> 01:15:26.760

Markus Brunnermeier: want people to spend when there's excessive supply that to use energy then and use less energy, when there's not enough supply.

446

01:15:27.060 --> 01:15:30.570

Markus Brunnermeier: yeah that's exactly the prices, how would this help in this context.

447

01:15:31.140 --> 01:15:38.130

Sylvain Chassang: So, and so the idea is I you know we don't meet on yes very aware that the high frequency.

448

01:15:39.120 --> 01:15:49.320

Sylvain Chassang: Gas is frequently used as a way to deal with demand variations related to electricity production, for instance, when you know, in your bones are not functioning.

449

01:15:50.160 --> 01:16:05.310

Sylvain Chassang: And so you know gas is sort of the fast vein buffer but you could try and reduce gas and by using the volatility of visit you are the man is some should be.

450

01:16:05.550 --> 01:16:07.620

Sylvain Chassang: And one way to do that is.

451

01:16:07.920 --> 01:16:15.450

Sylvain Chassang: To see what people when they don't consume electricity at the time, will it be produced through gas right and so.

452

01:16:16.050 --> 01:16:25.590

Sylvain Chassang: You know that's an advanced market commitment that you could make now you don't have a ton of entry for you know load pricing solution it's a hard you know marketing sale.

453

01:16:26.070 --> 01:16:37.800

Sylvain Chassang: You know it's not something that's super popular, but you know you could build an advance market commitment for this type of solution and that's, something that would directly is dependency on gas, electricity.

454

01:16:39.150 --> 01:16:49.710

Markus Brunnermeier: So, in other words, putting it in new policy of demand, you would make them demanded listed satirical up because people can smooth and hence there would react more to increase in prices.

455

01:16:49.830 --> 01:16:59.280

Sylvain Chassang: yeah I don't know if it's exactly it diminishes to grew up but yeah It is this thing about our no there's no necessity, because people don't know the price of gas.

456

01:16:59.700 --> 01:17:10.230

Sylvain Chassang: And vr the electricity market and the vr you know this, you know metering and you know communication technology and incentives technology yeah you'd heighten.

457

01:17:11.430 --> 01:17:17.280

Sylvain Chassang: The effective elasticity of demand for gas, by improving incentives and information.

458

01:17:19.260 --> 01:17:29.340

Markus Brunnermeier: How quickly, do you think this, so let me start with a final question how quickly could such a scheme be implemented, it is a matter of years or can we do it in a few months.

459

01:17:30.390 --> 01:17:31.650

Markus Brunnermeier: How complicated, is it and.

460

01:17:32.220 --> 01:17:32.550

Sylvain Chassang: I don't.

461

01:17:34.800 --> 01:17:41.010

Sylvain Chassang: know if you got a large tech company to pledge resources to this idea that you could do reasonably fast.

462

01:17:41.370 --> 01:17:57.660

Sylvain Chassang: I said this for a couple of reasons, one is depend on the country that is pretty high penetration of smart meters already so Germany is actually know, one of the best players, but you know Scandinavia Scandinavian countries, France, Italy, England have have decent smart meter penetration.

463

01:17:58.980 --> 01:18:04.140

Sylvain Chassang: Asia has really good smart meter penetration five tricity the US to about 70%.

464

01:18:05.070 --> 01:18:18.030

Sylvain Chassang: So that infrastructure is you know impact in place so, then what you do software and we have already quite a bit of an idea of how to run you know, Lord pricing people have been talking about forever lots of a solution that you know.

465

01:18:18.750 --> 01:18:25.080

Sylvain Chassang: are available, so you know, I think, with the budget of a pretty good stuffed up you could get something running on it to be fast.

466

01:18:30.240 --> 01:18:38.280

Markus Brunnermeier: Okay, so thanks a lot server for outlining the division yeah I think it's great of course i'm biased and.

467

01:18:40.290 --> 01:18:51.360

Markus Brunnermeier: let's hope that something like this will become a reality, and it also shows what I like about it, it shows you know how game theoretic thinking can actually impact the real world dramatically.

468

01:18:51.810 --> 01:19:01.980

Markus Brunnermeier: And that our thinking often is in our old world where we think everything is competitive and if it was best, and all this, but we will, in the second or was it called its third best.

469

01:19:02.430 --> 01:19:08.040

Markus Brunnermeier: And then we have to also think about the optimal response in in a world where there's a second best of the best.

470

01:19:09.060 --> 01:19:27.090

Markus Brunnermeier: What we're living in so thanks again and we stay in touch and keep talking about it and think about institutional features and we are happy for all of us who stayed with us, and if you have any suggestions along these lines were very careful you're grateful if you could.

471

01:19:28.290 --> 01:19:45.990

Markus Brunnermeier: pass it on to us next Thursday will be Jonathan pain, he will talk about defy tokens and platforms and smarts etc, so that will be a different topic, but it's also about our future and see you next week bye bye.