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Oil prices fuel growing energy crisis

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Body Text: BRITAIN'S energy policy is starting to unravel. Somehow, this Government has managed inadvertently to raise, through taxes, all energy prices, which were rising anyway, while failing to reach its stated target of reduced CO2 emissions.

The euphoria which has greeted small falls in price this week is only a further indication of this turmoil.

Petrol and diesel prices, now the second highest in Europe, could be reversed considerably further by Government tax cuts. But Gordon Brown prefers to be the fat-cat Chancellor: a reaper of high taxes and a profligate spender.

The truth is that Britain is, and will remain, a road economy, and these costs we must keep under control. For if we don't, ever higher taxes on fuel will make everything more expensive for us all.

The fuel protesters have a point. Since 1998, oil prices have risen from \$12-a-barrel to about \$65. And there is concern this week that they will hit a new record above \$70 if fears about the scale of Hurricane Rita's impact are realised.

Like any major price rise, oil only becomes more expensive when demand exceeds supply. And recently that demand has surged on the back of war in Iraq, a lack of refining capacity and the greatest and most rapid industrialisation in history, taking place today in China.

As the developing world starts to power ahead, and more than one in 500 Chinese people start to own a vehicle, it's inevitable that this will start to feed through to oil prices. So who's gained out of this?

There are three winners from this oil spike: the Treasury, OPEC and the oil companies.

Britain's fiscal receipts from North Sea oil (and gas) have mushroomed, and the Treasury is awash with cash from oil-company profits.

A further complication is OPEC, a price-fixing cartel of oil-producing countries, varying in membership between, at best, elective - not liberal - democracies such as Iraq, to feudal theocracies like Saudi Arabia.

It's really not obvious why some of these countries should merit windfall gains from ourselves, which help them to prop up backward regimes.

At present prices, the world is going to hand over \$30 trillion to the Persian Gulf states over the course of the next few decades, including countries which pin their hopes on Islamic fundamentalism and a collapse of the West.

The third winner, the oil companies, are - contrary to received opinion among the greens - perhaps the most innocent of the lot.

What they have earned from this price rise is much less than what OPEC and the Government have taken in tax receipts. Some of it at least feeds through to our pension funds.

That's because these companies start making profits after the price hits \$15-a-barrel - much later than either the Government or OPEC. Some OPEC states even start making profits at \$5-a-barrel.

Last week's fuel protest, meanwhile, was about the losers, the backbone of our nation, families and businesses, those who deliver our goods, take our children to school and export our products.

They are, quite literally, the drivers of our economy and society. Just try running a supermarket supply chain without road transport, or getting all Britain's children to school without cars.

According to the Freight Transport Association, when measured by tonnage, 81 per cent of our freight is moved by road, five per cent by rail, six per cent by water and eight per cent by pipeline.

Even if we were able to double transport by rail - and we can't - we would still need to transfer freight between rail terminals by road to the end consumer.

It's simply a hopeless strategy to think that, if the cost of fuel rises high enough, industry will shift off the roads, because there's nowhere else to go. Commercial vehicles will have to operate, whatever the price of fuel.

Still, if there are any positives to draw out of higher oil prices, it's that the cost of not knowing how much oil there is has risen considerably.

Oil exploration is hugely expensive. That's why higher oil prices always lead to greater exploration and additional refining capacity, which will inevitably lead to lower, although not much lower, prices than today.

For all that, no-one seriously knows exactly how much oil we have left. It does seem reasonably certain, however, that sometime over the course of this century, we will need something else. Or perhaps even sooner.

As former OPEC chairman Sheikh Yamani once said: "The Stone Age did not end for lack of stone, and the Oil Age will end long before the world runs out of oil."

That's why some think that, on the technology front, China is the joker in the pack. The paradox is that, while it is driving oil prices higher, it will be the first to adapt to alternative energy vehicles, if only because the Chinese can't afford to do otherwise.

As super-efficient hybrid technology matures, and the cost of components falls, some think that China will start building \$5,000, 100-mile-a-gallon, hybrid rickshaws, affordable to a billion people, many of whom are still powered by rice while riding their bicycles.

Of course, it's not the fault of Tony Blair's Government that global oil demand is going through the roof. And Gordon Brown is half-right to blame OPEC. The industrialisation of China and India are both external events that are way beyond their control.

But when it is within their power to reduce fuel duties back to where they were a few years ago, or at least bring them in line with average European prices, and you have to wonder whose side this Government is on when they choose not to do so.

Britain, meanwhile, is starting to look like West Germany in the 1980s: cruising on the comparative economic advantages of the past, oblivious to emerging global competitive threats and piling up ever greater costs on us and our children.