COMMENT

It’s Simple Economics

IN FRANCE, FISHERMEN ARE blockading oil refineries. In Britain, lorry drivers are planning a day of action. In the US, the car maker Ford is to cut production of gas-guzzling sports utility vehicles and airlines are jacking up ticket prices. Global concerns about fuel prices are reaching fever pitch and the world's leading energy monitor has issued a disturbing downward revision of the oil industry's ability to keep pace with soaring demand.

The latest high–$135 for a barrel of light sweet crude–was reached in New York barely five months after the price hit $100. Experts in London and on Wall Street predict that prices will rise to $200, regardless of the protests of consumers and the com-plaints of politicians. It is simple economics, they say: supply and demand. The former is short, the latter growing.

Consumers are feeling the pinch in almost every area of their daily lives. The pain is felt most obviously at the pumps. In Britain, the price of petrol has risen to an average of 114p for a litre of unleaded – £5.15 per gallon. In the US, where drivers pay much lower prices, gasoline is more than $4 (£2) a gallon. Beyond that, energy bills are rising for households across the globe, hitting the poorest the hardest. In India the import bill for oil is soaring and soring while the government finds in oil the only source to raise revenue by taxing the poor consumers.

Meanwhile, manufacturers are putting up the price of goods to compensate for higher energy bills at their factories, ending many years of price deflation that began when firms started transferring production overseas.

"The high-priced energy environ-ment is being driven by the fact that demand has outstripped supply," President George Bush's Energy Secretary, Samuel Bodman, told the US Congress the other day.

The world uses about 87 million barrels of oil a day, about a quarter of it in the US. Saudi Arabia is the only country thought to have the capacity to pump oil faster. Meanwhile, China is in the throes of an industrial revolution that demands ever greater supplies of crude, yet global production has stagnated for two years. The Saudi government rejected a recent appeal from Mr Bush to increase production, saying there were no oil shortages at present. Economists worry, though, that shortages are around the corner, as mature oilfields wind down.

The Paris-based International Energy Agency (IEA) might have overestimated the capacity of oil-producing nations to open new fields to keep up with growing demand over the next decade. Global production, which the IEA previously reckoned could reach 116 million barrels a day by 2030, might not even make 100 million.

Fatih Birol, the IEA's chief economist, said the oil industry had entered "a new energy world order" where it was harder to keep supply and demand in equilibrium. "When the price went up as a result of the Iranian revolution, demand went down," he added. "But what has happened in the last few years has not been in line with economic theory. The price of oil went up sharply between 2004 and 2006 and demand actually increased. That may seem bizarre but it is the result of new buyers coming in, such as China and the Middle Eastern economies where fuel is subsidised by government and rises are not reflected on the consumer side."

However, the investment bank Goldman Sachs said this month that the oil price could rise as high as $200 over the next year and would remain consistently above $100 until there was a significant fall in US demand. There are small signs of that happening. □□□