

UK economy is hostage to oil, warns expert

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The UK's economy cannot make a sustainable recovery until it breaks free of its dependence on oil, an expert at the University of Liverpool is warning.

Simon Snowden, a lecturer in Operations Management who recently addressed the All-Party Parliamentary Group on Peak Oil and Gas, believes the accelerating cost of oil heralds the beginning of a supply 'plateau' where oil production peaks and demand for the commodity outstrips supply to such an extent that world economies begin to fail because of their dependence on it.

Pressure on oil supplies has risen sharply as a result of huge economic growth in China and, to a lesser extent, in India. Increased demand has been compounded by production problems in several of the world's oil-producing nations including Iraq and Nigeria, owing to their instability.

The price of oil and demand for the commodity has continued to rise for nearly 10 years but this has not been matched with sufficient investment in supplies. In the past 12 months the price of oil has soared from just above \$50 to \$125 a barrel. A recent report by Goldman Sachs claims the possibility of \$150 to \$200 a barrel is increasingly likely in the next six to 24 months.

Simon Snowden said: “Unless we completely cut our dependence on oil, we could see years of almost non-existent growth for the UK economy. Any recovery will be short-lived and at ever-lower levels. The cost of goods will rise even more sharply and the economy could stagnate into a recession for several years. We need to invest in alternative forms of energy and transport but changing our economy in such a fundamental way will take years so in this sense a recession is inevitable.

“Fuel poverty will be an increasing problem – it will be important to protect the most vulnerable such as the elderly and the poor. We also need to safeguard our farming industry which could easily be undermined as around 80% of the cost of cultivating crops is based on products vulnerable to the price of oil.”

He added: “The combination of global inflationary pressures caused by problems in the US sub-prime market and the soaring cost of oil are creating the ‘perfect storm’. Until we have adjusted our economy we will continue to suffer at the hands of oil.”

Source: University of Liverpool

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