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Inaction on \$100 oil is likely to backfire

Consumers may go for alternative energy

Gulf News, Nov 9th, 2007

New York (Reuters) OPEC's reluctance to open the spigots as oil nears \$100 a barrel could backfire on the group as alternative energy sources and consumer conservation dig into demand.

Output curbs by the group, which controls more than a third of the world's oil, have contributed to a 90 percent rally in crude prices from last winter's lows and have helped spur investment in renewable fuels while denting demand growth.

The trend mirrors the effects of the oil boom of the 1970s, when Americans traded in gas-guzzlers for compact cars and took other conservation measures that cut into oil demand.

"Over time, the danger for the group is accelerating a decline in primary consumption of oil products, as is now happening in the US, which has been its largest growth market for the last 17 years," said Edward Morse, chief energy economist for Lehman Brothers. "It accelerates both the market incentives for investments in alternatives and energy saving technologies as well as for political incentives to foster the same ends."

OPEC agreed to roll back 500 000 barrels per day of a 1.7 million barrel per day output cut starting this month to sooth consumer fears high oil prices would damage economic growth.

But the group has dismissed calls from the US and other consumer nations to further increase output, saying speculation and geopolitics are to blame for oil's surge – not a lack of supply.