

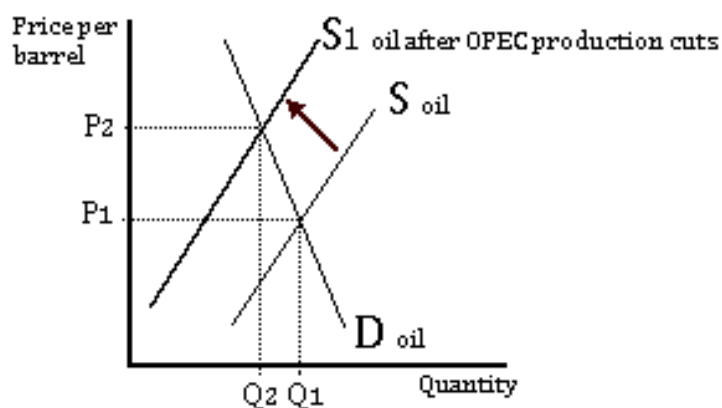
THE COMMENTARY WRITING PROCESS

Inaction on \$100 oil is likely to backfire

The recent increases in oil prices are not only causing pain to oil consumers, but continued high prices could hurt producers as well. However, despite rising energy prices, the health of citizens and the environment may be indirectly aided as the market incentives grow for greener energy alternatives. **Sustainability** addresses the ability of present generations to meet its needs without compromising the ability of future generations to meet their own needs. Furthermore, it refers to limiting the degree to which the current generation's economic activities create harmful environmental outcomes involving resource depletion or degradation that will negatively affect future generations. As oil producers, such as OPEC, have tried to increase the price of oil, this has accelerated the conservation movement and "... the market incentives for investments in alternatives and energy saving technologies."

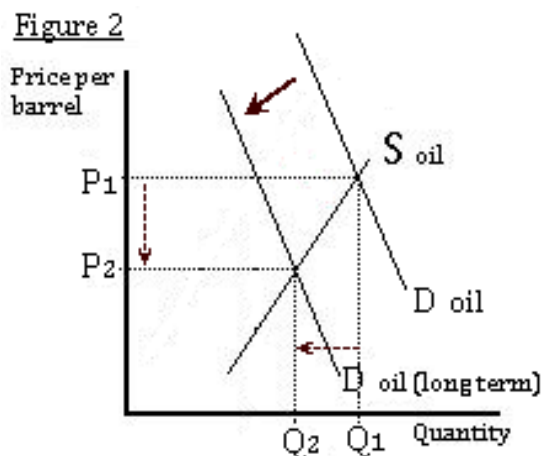
The initial situation is clear. Controlling over 1/3 of the global oil supply, OPEC cut output which decreased the supply of oil on world markets and subsequently increased the price of oil by 90% as shown in figure 1:

Figure 1



We can see that the shift in the supply curve to the left (from S to S_1) has caused the price of oil to rise significantly, from P_1 to P_2 , while leading to only a slight fall in the equilibrium quantity of oil, from Q_1 to Q_2 . This is due to the fact that both the oil demand and supply curves have been drawn quite steeply. This is because, at least in the short run, both oil demand and supply are relatively price inelastic. On the demand side, it is hard to change energy consumption habits very quickly since it has few close substitutes. While higher gasoline prices may force motorists to cut down on the consumption of gas, it takes time to organize car pools, move closer to places of work or replace vehicles with more fuel efficient substitutes. For producers, as it takes years to find and develop new oil reserves, supply is similarly inelastic in the short term.

As time passes, though, consumers facing sharply higher prices will find substitutes and use less petroleum, aiding sustainability, and likely, other things being equal, shifting demand to the left, as shown in figure 2.



Due to the inelastic nature of both supply and demand, the shift in demand from D to D (long term) has a large impact on the price of oil, moving it down significantly from P_1 to P_2 even while the equilibrium quantity of oil is reduced only slightly from Q_1 to Q_2 .

In the short term, higher oil prices will undoubtedly cause a great deal of economic pain. As energy, particularly petroleum, is used in the production of many products (fertilizers for food, plastics etc.) as well as in transporting them, higher oil prices will lead to higher prices for most goods and services. This price inflation will hurt the poorest the most, both in developed and, most severely, in developing countries.

Oil producers, meanwhile, will enjoy greater profits in the short term. With oil prices at \$100 per barrel, the royalties flowing to the governments of oil producing and exporting nations will rise significantly. This will in turn allow these governments to increase spending on infrastructure, education and health care which will improve the living standards of citizens. Alternatively, within developed nations such as the United States and Canada, continued dependence on fossil fuels threatens sustainability as dangerous CO₂ emissions contribute to climate change while oil extraction endangers wildlife, human health and water sources.

In the long term, though, if consumers respond to the higher oil prices, as indicated above, by investing in and switching to alternative energy sources like wind and solar energy, the benefits could be significant for the environment, threatened as it is by global warming. However, for oil producers such a move could be disastrous, but even if oil were no longer used as a fuel, it would still be needed as an input in the production of plastics and chemicals. Perhaps, without the means to earn 'easy' money from extracting and selling oil these nations would be able to develop other industries and diversify their economies while potentially promoting greener energy sources. Also, continual oil price fluctuations, particularly those on

the high side, may encourage consumer (motorists) demand to shift towards greener transportation substitutes such as electric and hybrid vehicles.

Ultimately, the incentive to move to more sustainable production activities depends on how long oil prices remain high and whether the profits in green energy are enough to encourage further research and development of alternative energy sources. Thus, overall, a move to higher oil prices would likely have more positive consequences than negative ones over the long term.

Word Count: 781 (*excluding diagram labels*)

STEP 4 - EDIT AND GET THE WORDCOUNT RIGHT

Note – Be sure to go through your writing after you finish and take out unnecessary words. Editing and re-editing are a key part of the commentary writing process. The challenge when writing commentaries is never to get enough words – the challenge is always to say what you need within the word limit. That is why you should never summarize the article and why the analysis needs to be so concise. Notice that accurate analysis and evaluation are the key skills that must be demonstrated through the bulk of the commentary. Be sure to clearly and succinctly explain how your key term (in this case, *sustainability*) relates to the analysis and evaluation. (this may be done throughout or within the concluding paragraph(s) of your commentary)