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## Rising Demand for Oil Provokes New Energy Crisis

By [JAD MOUAWAD](#)

With oil prices approaching the symbolic threshold of \$100 a barrel, the world is headed toward its third energy shock in a generation. But today's surge is fundamentally different from the previous oil crises, with broad and longer-lasting global implications.

Just as in the energy crises of the 1970s and '80s, today's high prices are causing anxiety and pain for consumers, and igniting wider fears about the impact on the economy.

Unlike past oil shocks, which were caused by sudden interruptions in exports from the Middle East, this time prices have been rising steadily as demand for gasoline grows in developed countries, as hundreds of millions of Chinese and Indians climb out of poverty and as other developing economies grow at a sizzling pace.

"This is the world's first demand-led energy shock," said Lawrence Goldstein, an economist at the Energy Policy Research Foundation of Washington.

Forecasts of future oil prices range widely. Some analysts see them falling next year to \$75, or even lower, while a few project \$120 oil. Virtually no one foresees a return to the \$20 oil of a decade ago, meaning consumers should brace for an era of significantly higher fuel costs.

At the root of the stunning rise in the price of oil, up 56 percent this year and 365 percent in a decade, is a positive development: an unprecedented boom in the world economy.

Demand from China and India alone is expected to double in the next two decades as their economies continue to expand, with people there buying more cars and moving to cities to seek a way of life long taken for granted in the West.

But as prices rise, the global economy is entering uncharted territory. The increase so far does not appear to be hurting economic growth, but many economists wonder how long that will last. "These prices are too high and will end up hurting everybody, producers and consumers alike," said Fatih Birol, chief economist at the International Energy Agency.

Oil futures closed at \$95.46 on the [New York Mercantile Exchange](#) yesterday, down nearly 1 percent from the day before. But the price has become volatile, and many analysts expect the psychologically important \$100-a-barrel threshold to be breached sometime in the next few weeks.

"Today's markets feel like the crowds standing up in the final minutes of a football game shouting: 'Go! Go! Go!,'" said Daniel Yergin, an oil historian and the chairman of Cambridge Energy Research Associates, a consulting firm. "People seem almost more relaxed about \$100 than they were about \$60 or \$70 oil."

Oil is not far from its historic inflation-adjusted high, reached in April 1980 in the aftermath of the Iranian revolution. At the time, oil jumped to the equivalent of \$101.70 a barrel in today's money.

For most of the 20th century, as it transformed the modern world, oil was cheap and abundant. Throughout the 1990s, for example, oil prices averaged \$20 a barrel. Even at today's highs, oil is cheaper than imported bottled water, which would cost \$180 a barrel, or milk, at \$150 a barrel.

“The concern today is over how will the energy sector meet the anticipated growth in demand over the longer term,” said Linda Z. Cook, a board member of [Royal Dutch Shell](#), the big oil company. “Energy demand is increasing at a rate we've not seen before. On the supply side, we're seeing it is struggling to keep up. That's the energy challenge.”

More than any other country, China represents the scope of that challenge. As it turned into a global economic behemoth over the last decade, China also became a major energy user. Its economy has grown at a furious pace of about 10 percent a year since the 1990s, lifting nearly 300 million people out of poverty. But rapid industrialization has come at a price: oil demand has more than tripled since 1980, turning a country that was once self-sufficient into a net oil importer.

India and China are home to about a third of humanity. People there are demanding access to electricity, cars, and consumer goods and can increasingly afford to compete with the West for access to resources. In doing so, the two Asian giants are profoundly transforming the world's energy balance.

Today, China consumes only a third as much oil as the United States, which burns a quarter of the world's oil each day. By 2030, India and China together will import as much oil as the United States and Japan do today.

While demand is growing fastest abroad, Americans' appetite for big cars and large houses has pushed up oil demand steadily in this country, too. Europe has managed to rein in oil consumption through a combination of high gasoline taxes, small cars and efficient public transportation, but Americans have not. Oil consumption in the United States, where gasoline is far cheaper than in Europe, has jumped to 21 million barrels a day this year, from about 17 million barrels in the early 1990s.

If the Chinese and Indians consumed as much oil for each person as Americans do, the world's oil consumption would be more than 200 million barrels a day, instead of the 85 million barrels it is today. No expert regards that level of production as conceivable.

More realistically, global demand is expected to rise to about 115 million barrels a day by 2030, a level that is likely to tax the world's ability to pump more oil out of the ground. Already, the world is running on a limited cushion of spare capacity; any interruption in supplies, whether from [hurricanes](#) or armed conflict, causes prices to spike.

“We don't have any shock absorbers,” Mr. Goldstein said.

For oil companies, high prices have set off a frenzied search for new sources around the world. After a long lull in investments through most of the 1990s because of low prices, major oil companies have invested billions of dollars to bring in more supplies.

The trouble is that these big new developments take a long time, and companies have been hobbled by higher costs. The cost of drilling rigs, for example, the basic tool of the trade, has doubled in recent years. Analysts say it will take time, but new supplies will eventually work their way to market.

Supplies have also been hampered by political tension in the Persian Gulf, the war in Iraq, devastating hurricanes in the oil-producing Gulf of Mexico, production difficulties in Venezuela and violence in Nigeria's oil-rich province. Many of these geopolitical factors have contributed to a political risk premium variously estimated at \$25 to \$50 a barrel. Recently, in just nine weeks, oil jumped from \$75 to \$95 a barrel for little apparent reason.

"Fifty-dollar-a-barrel oil seems so far away at this point," said Thomas Bentz, a senior energy analyst at [BNP Paribas](#) in New York, citing a figure that seemed an impossibly high price for oil only a few years ago. "Oil will stop rising when we see demand destruction. We haven't seen that yet."

When will it happen? Veterans of the oil business, having lived through booms and busts, say no one should count on oil rising forever. Economic slowdowns in China or the United States — or especially, in both — would probably send prices tumbling.

It happened a mere decade ago, after the Asian financial crisis sent economies there into a tailspin. Global oil prices fell by half, from \$20 a barrel to \$10, in months.

"It would be a big mistake to think the laws of supply and demand have been abolished," Mr. Yergin said.

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