Putting a Cap on Oil

Nouse's Jonathan Legrand takes a look at Labour's proposed cap on oil prices

Sunday 1 March 2015

Image: Tommaso Galli

In an attempt to counteract the surge of popularity for the green party, Ed Miliband, leader of the Labour Party, claimed he would implement a 'freeze' of oil prices at their current low rate. This policy would last for at least twenty months after the general election. The party has, however, had to revise the policy following an attack from the Conservatives. It is now described as a 'cap' on oil prices, which would be flexible and relatively high; it would operate similarly to the debt ceiling mechanism in America. As the deadline approached, the cap would be reconsidered. There would also be a brief period after the deadline in which the cap could be changed. If this time elapsed the cap would be removed, perhaps resulting in a similar situation to the U.S. in 2013 when the government almost shutdown due to disagreement over the debt ceiling.

In a recent interview with the International Business Times, Tom Greatrex (the shadow energy minister) clarified Labour's position. He began by explaining the origins of this policy: "It was absolutely clear from the start that this was about stopping prices going up because between 2008 and 2009 wholesale prices increased, people's bills went up massively and, when wholesale prices decreased again, that wasn't passed on."

Later in the interview, Mr Greatrex went onto explain some more of Labour's energy policy: "there has been a range of reforms that we have set out to bring transparency and fairness to the market. […] For example, the regulator should be given the power and the duty to ensure that over time if companies don't pass on wholesale costs to consumers, the regulator would require them to do so."

This particular policy, though, has two counteracting outcomes:

1. A price freeze on oil will mean lower revenues for all the companies involved with supplying oil. This may force them to cut costs, thus refineries and oil wells will have to be shut with workers being laid off.
2. Oil prices are a topic that is very effective at luring voters to your party. It would be no surprise for them to use the 'oil price cap' loosely. But as the political race heats up, Ed Miliband will be forced to clarify his position and he will be pressed to decide how stringently he should enforce this policy.

Image: Anthony Mckeown

A question that inevitably arises is: How valid is the Labour Party's manifesto? This oils price cap seems like a loose, 'unimplementable' political strategy that Ed Miliband could believe is superfluous. His reasoning could be based on the recent U.S. oil supply surge and on Saudi Arabia, the world's second highest oil producer with 16% of the world's proved oil reserves, which has decreased its oil export prices in the hope to gain a greater market share (particularly in the U.S.). This, it is hoped, will keep the prices low for the foreseeable future and help to asphyxiate Russia's current grasp of the oil supply market.

In addition, experts are sceptical of forecasts that predict an increase in oil prices. As reported by Bloomberg, the Energy Information Administration (EIA) this week reported that "U.S. commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) increased by 7.7 million barrels from the previous week […] which is considerably higher than the 5 year high of 0.4M. […] At 425.6 million barrels, U.S. crude oil inventories are at the highest level for this time of year in at least the last 80 years." Indeed this high supply from the U.S. is unlikely to fall anytime soon, since the pace of U.S.' oil pumping is at its highest now since 1972.

Moreover, the U.S. is consuming less oil per dollar of GDP now than in more than four decades (emphasising U.S.'s turn towards an economy more independent of crude oil). The high and increasing production of oil in the US, coupled with low domestic demand, will force much of it to go abroad. This will further lower international oil prices and, since Britain is a close trading partner of the US, help to flood the British oil market with oil.

Thus it seems circumstances are extremely conducive for Ed Miliband's policy, allowing him to implement the laws he intends and promises to. But before Ed can entertain any dreams of holding oil companies to account, he must get elected – a feat that is by no means certain.

6. Managing your finances at university

Write for Nouse Business

Get in touch with the editors

Join the Facebook group

More in Business

What does Theresa May’s new Brexit plan mean?

The University as your landlord: friend or foe?

An update on the US-China trade war

A workplace revolution: a four-day week?

Managing your finances at university

Tesco launches new discount store chain Jack’s

About Nouse
Who’s Nouse
Website Credits
Contact Us
Advertising
Archives
Student Discounts
Print Editions
Mini-Sites
Nouse on Twitter
Nouse on Facebook
Nouse on Google+

Policies |