An oil price shock is waiting in the pipeline

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Vince Cable is the Liberal Democrat Treasury spokesman and was formerly an economist with oil giant Shell. He explains why the price of oil may continue to rise - and why it's so bad for Britain...

While Gordon Brown is playing musical chairs on the deck of the Titanic, normal people are worrying far more about paying their bills.

Motorists will have noticed that we are back up to £1 a litre for unleaded petrol at many garages. We may have not yet reached the heady heights of last summer, but the trend is unmistakable.

Even in a **recession**, there is the danger of inflation for some essential products such as petrol. Stagflation is back - and perhaps, not too far off, another 'oil shock'.

Most of the pump price is made up of tax, so motorists don't see the full effect of the dramatic changes in the price of crude oil. It rose steadily from a low of about $25 a barrel before the Iraq war to a peak of $140 last summer.

The world economy then crashed in the 'credit crunch' and crude fell back to $45 a few weeks ago. Prices at the pump also fell, but British motorists didn't get the full benefit.

One reason was that, until very recently, our currency was falling heavily against the dollar. This meant that oil prices in pounds fell much less than in dollars. But, still, prices were generally falling, giving some relief at a time when workers' pay and pensioners' living standards were being squeezed.

No more. While the boys in the City get excited over a recovery in share prices, the rest of the population sees altogether less welcome news on other prices.

But why should we have to worry again about high oil prices? It doesn't seem to make sense. The United States, Britain, Europe and many other countries are still experiencing recession. There is less demand for oil: fewer company cars travelling to work, fewer lorries on the road, fewer flights. The price should be falling, but it is doing the opposite - rising to $65 a barrel last week.

One reason is that the big Asian economies - China and India - haven't been too badly hit by the global slowdown. China has offset its decline in exports to the West by launching vast infrastructure projects, sucking in more oil.

And anyone who has been to an Indian city recently will have been struck by the explosion of middle-class car ownership on top of thems of scooters. There is even a new car on the market costing little more than £1,000. So oil demand is booming there, too.

Yet, with the exception of Saudi Arabia, the main oil-producing countries are unable or unwilling to produce-more to meet demand. There is violence (Nigeria, Iraq until very recently), nationalism (Russia, Venezuela, Mexico, Iran) and depleted supplies (the UK). We squandered our oil reserves in the Eighties and Nineties when prices were very low. There is still plenty of oil in the world but it is very expensive to produce - as in the vast Saudi-sized fields recently found off the coast of Brazil - or very dirty and polluting, like the Canadian 'tar sands'.

Private companies such as my former employer, Shell, and BP are investing in these new fields, but they will make money only if prices are even higher than today's.

So with rising demand in developing economies, rising production costs and restrictions on supply, it is clear where prices are heading - up. Exporting countries are tempted to squeeze supply even more to profit from any speculative spike.

We must think about how to cope with another surge in oil prices, even while we struggle with recession and rising unemployment. Motorists would look to the Government to lower taxes. But the budget deficit is now so dire that there is simply no money to pay for tax cuts. It might be possible to help people in the more remote rural areas where there is no alternative to a private car, as they do in France. But don't expect tax breaks for motorists in general.

It is more obvious than ever that the future lies with fuel-efficient and low-carbon cars. Those who are able to switch now will save a lot of money. The Government should therefore be more intelligent when it comes to helping the car industry.

Labour's scrappage scheme for old bangers is largely a waste of taxpayers' money. It would be more useful to concentrate on swaps for the new generation of hybrid cars or others offering economical mileage or new British technology.

Last week, I criticised Lord Mandelson's offer to underwrite a deal 'saving' Vauxhall, which risks becoming a handout to Russianbnaires. Help for new technology for the whole UK car industry to get greener would make far more sense than a dodgy deal with Deripaska.

Long-term thinking is difficult in the current political crisis, when most politicians are obsessed by tomorrow's headlines, our Prime Minister is powerless and he clearly has no confidence in his Chancellor.

But our future as a country depends much more on our ability to plan ahead for the next oil shock and the post-oil world.

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It backs up what I said to you recently and in my letters to Lord Mandelson.

We have to save as much oil and other resources as possible.

Gerry Evans Reusa-Can