

## PRESS RELEASE

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### THE CHALLENGE OF CHEAP OIL

The rise in oil price is a subject of much debate. With the charges made against oil companies and the assertions claiming that the end of the oil era is close, most commentators agree that solutions can be brought about by new government interventions in the production of the black gold and energy markets. Reference is made to the recent threat of an exceptional tax being levied on oil profits in France, as in the United States.

According to the latest report of the Molinari Economic Institute published today, *The challenge of cheap oil*, these reactions are based on flawed diagnoses. They propose false remedies and can only worsen the problem. Current policies such as taxation at nearly 80% of Super in France are responsible for artificially increased prices and prevent the emergence of future solutions. A true fall in prices is only possible through the lifting of governmental restrictions on production.

For Xavier Méra, author of the economic note, economic analysis provides the keys to the problem and some remedies ready to be employed: "In the free market, buyer expenditure equals sellers' incomes. But taxation creates a divorce between the two: sellers' incomes are reduced by the amount of tax. Consequently, taxation penalizes production. The volume of profitable production is then reduced in line with the rise in taxation. This reduction in the supply of oil products can only make their prices go up. High taxation accentuates this. There is not therefore any fate in high prices since they depend on political decisions which are revocable."

Concerning fears of an inexorable future price rise, going hand in hand with the exhaustion of oil wells, the author recalls that: "In 1865, the economist William Jevons wrote a book claiming that the end of coal was nigh in the United Kingdom and that prosperity linked to its use would become exhausted with it. The United Kingdom did not see its industrial revolution fall through due to the rarefaction of coal because people discovered that something hitherto considered like mud - oil - could replace it. The problem of energy is not that of an intrinsic scarcity of natural resources, it is economic and institutional. Will one allow innovators the possibility of discovering new exploitable energy sources or not? Human ingenuity is not automatic. It is spread only insofar as it pays, that is to say when governments do not confiscate its fruits".

The economic note is available on the IEM website:

French version : <http://www.institutmolinari.org/pubs/note20055fr.pdf>

English version : <http://www.institutmolinari.org/pubs/note20055.pdf>

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