

Jackie: Oil makes our world go round...they call it black gold. It fuels our cars, runs our industries, it makes our countries work. So when oil prices go up, or when supplies are scarce, oil can cause a global crisis.

Oil is the topic of this second chance to hear Insight Plus - your guide to the language you hear every day in the news, first broadcast in 2001. Here's Lyse Doucet.

Lyse: In the last few months of the year 2000, oil was in the headlines again. Protests swept across Europe as truck drivers, farmers, and thousands of other people demonstrated against high oil prices. It was an unprecedented show of strength across the region – a call for governments to reduce high taxes on oil to help bring the prices down. But governments argued the oil producers or OPEC was to blame. We'll hear more about OPEC in a moment. Let's listen to a typical news report from that time. This one is from Andrew Walker, BBC World Service Economics correspondent.

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Four times already this year OPEC has agreed to boost output. But the price of crude remains stubbornly high - three times the level of less than two years ago. There are signs that energy costs have added to inflation in oil importing countries. Some economists, albeit a minority, are concerned about the historical parallels. In the past when oil prices have risen so sharply, recessions have followed in many oil consuming

nations. Nonetheless at this meeting it is not likely that OPEC will increase production again. Its most recent boost came at the beginning of November. The organisation prefers to wait and give output changes some time to affect prices. In any event, most analysts think that the high price of crude is not caused by insufficient production. The problem is that stocks of oil products, notably heating oil are low.

Lyse: The oil world divides into consuming and producing countries. Consumer nations don't have any oil fields to produce their own oil. They often import crude oil, oil that is not refined. It's sold by the barrel.

High oil prices can have a devastating impact on the economy of a consuming nation. If prices remain high for a long period, it affects prices of goods across the economy. A general rise in prices is called inflation and, as the last report pointed out, some economies can even go into recession – that's a long period of falling economic activity.

So in the year 2000, when prices stayed above thirty dollars a barrel, oil producing countries came under huge pressure to boost output - to increase production - to bring prices down. It was this need to have some control over worldwide output and prices that led many oil producing nations to establish an organisation or cartel in 1960 called OPEC - the Organisation of Petroleum Exporting Countries.

OPEC now brings together 11 governments from around the world including major Arab producers such as Saudi Arabia and Libya, African states like Nigeria and Algeria, producers in South America such as Venezuela, and from Asia, Indonesia.

OPEC tries to coordinate policies on how much is produced in each country. This is to ensure a certain supply of oil worldwide, as well as satisfactory prices for OPEC producers, and sufficient profits for companies as well as countries which invest in the oil industry. But some major producers such as Mexico, Russia, Norway and Oman decided not to join this collective effort to coordinate production and prices. That affects OPEC's power to control the oil market.

Lyse: Almost everything we use in our daily lives has been produced in factories that depend on some kind of fuel – everything from the glasses we drink from, to the paper we write on. It's not hard then, to see how increases in the price of oil can create wider economic problems. It works in at least three different ways.

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The first stage, the immediate effect is the petrol prices go up, you pay more at the pumps therefore you've got less left over to spend on other things. The second round effect is industry's costs go up, and that feeds through to prices more generally across the economy, for example, we've seen airline fares going up recently. And that second round effect will continue to come through over the next year, even if oil prices stop going up.

Lyse: That was Michael Saunders, a commodity trader. As he points out, we feel the effects of oil prices when we purchase it ourselves and when we buy goods or services that also rely on oil. And there's another effect.

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The third effect is that the high inflation rates which you get from those first two factors, often raise people's inflation expectations and then push up pay and you then get a much longer lasting rise in inflation.

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The high price of petrol is simply the result of the world demand on oil being higher than the supply. It's as simple as ABC.

Sarah Hadad, London

If petrol and natural gases are running low and will run out in approximately ten years, shouldn't we plan to remove our dependency in five?

CJO, UK

The current discussions seem to ignore the fact that oil is traded as a commodity and the price is effectively set by the commodity brokers and the market. It seems a little unfair that OPEC is constantly blamed for the high prices when time and time again it has shown itself as having only a minor role in setting prices.

Folarin, Cambridge

I don't mean to sound so "crude" but you are unfortunately almost completely dependent on oil for your survival as a nation. Taken to its extreme, without oil, your economy (not to mention your entire infrastructure) would most definitely collapse.

James USA

Lyse: Oil and oil prices are the subject of today's Insight Plus from the BBC World Service, your guide to the language and background to the stories that stay in the news.

As we heard in those comments, posted on the BBC Talking Point website, many things can affect the price of oil. What is certain is that it's vital to the world we live in. It's little wonder that we talk about our dependence on it - a dependence so great it's like an addiction, we think we can't live without it.

Here's another extract from the report by the BBC's Mike Gallagher on the recent European oil crisis.

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One thing this crisis has proved more than any other recent event is how much the modern world depends on oil for its very survival. And it's raised awkward question: is it time to deal with this addiction? And how easy would that be? Environmentalists have been arguing for years that we should reduce the amount of oil we burn, to avoid the catastrophe of global warming. For them, the OPEC production cuts and resulting price rises are a timely reminder of that message.

Rob Deuterbock

They're making us realise how addicted we are to the stuff and if that can bring to the where we decide to wean ourselves off it then that's a great thing.

Lyse: That was Rob Deuterbock from the environmental organisation, Greenpeace. So is it possible for us to reduce the amount of oil we use? What are the alternatives? And will we be forced to change because the world will run out of oil?

At present, billions of barrels of oil are produced every day. Industrialized nations, like the United States, consume a great deal. And country like China which is expanding production and its use of cars, will soon be demanding more.

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It's hard to think of limited supplies when you consider that the world's oil fields pump out eighty million barrels of crude every single day. But consider too the fact that there are now two billion vehicles worldwide dependent on that same oil. That new economic giants like China are now queueing up for their share. And that, despite all the warnings, the US continues to use no less than a quarter of the entire world output. Geologist Richard Miller believes the current price fluctuations are evidence of nothing less than the beginning of the end for oil.

Richard Miller

Yes, oil will become scarcer and scarcer. What we will see is a deceleration, and I think we've already started to see some of that: market wobbles. Wobbles in the price. General instabilities. I think we have already started to see this. We are very close to balancing supply and demand. And the supply is very limited at the moment.

Lyse: New oil fields are being discovered almost every year, but oil is a finite resource, one day it will run out. That's something environmentalists might welcome. For them, oil is a dirty fuel. When it burns, it releases carbon dioxide, one of the most harmful gases to our environment. Cutting gases like this are part of the battle to stop global warming, the heating of the earth's temperature which is causing chaotic changes in our weather.

But if we don't use oil, what else is there? There are biofuels produced from plants, there's also hydro-electric - or water power, as well as wind and solar energy. Many of these alternatives sources are known as renewable energy – they keep renewing themselves and won't run out.

Here's another extract from the BBC World Service. Jed Davis is in charge of alternative energy projects with the Shell oil company.

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There's nuclear which nobody particularly likes at the moment but nuclear is an option, potentially an important option if it can be produced in a way that meets public needs. But there is a a lot of emphasis at the moment on the renewables. Developing technologies that can make use of the energy from wind, solar power and so on. People have been working hard to try and make solar and wind competitive over the last ten to twenty years and in some areas the pricing structures have allowed that to

happen. But these are young technologies. Large scale energy technology development doesn't occur over one, two, five years.

Lyse: Alternative sources of energy like wind and solar power are being used on a small scale in many parts of the world. But for big industries there are no affordable alternatives to oil for now.

Today on Insight Plus we've looked at this vital commodity, oil. That means a crucial role for OPEC, the organisation of oil producers. And it also means a risky dependence on this resource for oil consuming nations. High oil prices keep provoking the crises which make us ask: are there cheaper and cleaner alternatives to this substance that we call black gold? That's all for today. Join me again soon for more insight into the world's top news stories.