



Hurricane sends oil prices higher



Oil prices have risen following fears that Hurricane Ivan in the Caribbean will disrupt petroleum supplies from the Gulf of Mexico.

As oil companies, including Shell, started evacuating workers from the Gulf of Mexico, which is home to about one-quarter of US oil and gas output, the **price** of a barrel of crude oil rose by €1.29 to €45.

Uncertainty about the exact path of Hurricane Ivan is likely to add to oil **market** volatility. The centre of the hurricane is expected to reach the western tip of Cuba but most of the oil platforms in the Gulf of Mexico are off the Louisiana and Texas coasts, about 700 miles northwest of western Cuba.

Meanwhile, officials say the Cayman Islands have suffered enormous damage. Governor Bruce Dinwiddy said thousands of homes had lost their roofs and key government buildings had been hit.

The Shell Oil company has said that it had shut offshore production wells and oil **supply** in the eastern Gulf of Mexico and was now 750 evacuating workers from the eastern and central Gulf. The firm also has shut off 270,000 barrels per day of oil production, more than three times that amount that affected by the previous powerful hurricanes.

Other oil companies, including BP and Texaco are also reported to have evacuated non-essential workers and reduced supply. Hurricane Ivan could "defer tanker unloading and temporarily shut down oil rigs, that is the risk", said Dariuz Kowalczyk, senior investment strategist at CFC Securities in Hong Kong.

The hurricane comes at a time of persistently high oil **prices** due to worries over the threat of **supply disruptions** due to unrest in the Middle East.

1. Why would a hurricane near oil fields increase the price of oil?
2. Illustrate the effect that a severe hurricane could have on demand and supply of oil from the Gulf of Mexico.
3. Give examples of five other products that could change in price in response to changes in the weather.

French anger over four-wheel drives



For movie stars, sporty people and middle class mothers with children, the **demand** for owning a four-wheel drive car has grown hugely. But for many people, the 4x4 - or sport utility vehicle – is a symbol of much of what is wrong with the traffic in our towns and cities. Critics say 4x4s guzzle fuel, belch out pollution and are a nuisance for other drivers, cyclists and pedestrians.

As with other cities across the world, 4x4 vehicles are an increasingly common sight on the streets and boulevards of Paris. But attitudes amongst residents against off-road vehicles are hardening. Paris city councillors, responding to figures which show some 4x4s produce four times more carbon dioxide (CO₂) emissions than small cars, are drawing up plans to fight pollution, which could see 4x4s banned from the city's streets altogether. Paris' transport chief has described the 4x4 as a polluting, space-occupying and dangerous "caricature of a car".

A law being discussed in France's parliament could pave the way for a controversial **tax incentive** scheme to encourage drivers to buy environmentally friendly cars by punishing those who buy 4x4s. The move forms part of a range of government measures aimed at reducing France's greenhouse gas emissions that are contributing to climate change. French government sources say MPs will be asked to vote on a €1500 euros **sales tax** on four wheel drives, which will pay for subsidies for purchases of smaller cars. Such a move could meet with the approval of many residents in Paris.

A spokesman for the French government-funded Environment and Energy Saving Agency, believes the tax incentive scheme is a step in the right direction. "It's a good measure. It will only reduce greenhouse gas emissions by about 1% but it's going to teach people that there are some cars that pollute more than others."

However Germany is understood to be unhappy at the French attitude. Germany's leading car makers, including Volkswagen and Daimler-Benz, **supply** some of the biggest 4x4s on the French **market** today.

1. **Illustrate the effect that a tax on 4X4 cars would have on demand and supply in the French market.**
2. **What effect would you expect such a tax to have on sales of more environmentally-friendly cars?**
3. **If Renault cut their car prices by 50%, what effect would you expect on demand for the company's cars? Why might Renault be reluctant to take such action?**