Government influence in energy industry research paper sample

[Business](), [Industries]()

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Energy industry has of late become a very crucial part of the world economy. The best example is exhibited by the reliance on energy by any industry and this makes virtually the whole world economy to be run by the energy industry. For this reason, the energy industry has come to the spotlight requiring great regulation and control so as to ensure equitable allocation and responsible use of the energy being supplied to the economy (John, 2011).

For this reason, energy sector has become a very important sector of the economy which has attracted very many investors. This has made energy supply to be much less than the demand making the need for energy supply to be ever increasing. Due to daily increase in the energy demand and the amount supplied remaining constant over time, the cost of energy supply has increased over time and currently stands at about 300% in cost compared to the cost in 1940s.

The major sources of energy used in the world are non-renewable. This means any decrease in the amount of supply would not be covered up in any means apart from trying to find alternative sources of energy. For this reason, the amount of capital input in any project that produces energy has increased significantly and the sources of energy being exploited have increased to cover even some renewable sources of late. Due to overexploitation of the natural resources to produce energy, governments have found it necessary to intervene and control some market treads in the energy industry. The most significant influences have been felt in the petroleum industry, natural sources exploitation and use of the supplied energy sources (John, 2011).

Forms of government intervention in the energy industry

Use of subsidies

Price control

Though this is not actively installed in most countries, the policy makers set a maximum price for certain energy sources. A good example is in the international oil prices where the world trade union and the regulatory body charged with oil business set certain limits for international costs of crude oil per barrel. This acts as a form of regulation that aims at controlling the energy industry influence in world economics and more precisely local economies of countries. Another good example is exhibited in Kenya where the government through the ministries of finance and energy a maximum price is set for each form of energy (electricity and fossil fuels) (Gabriella, 2011).

Taxation

This form of regulation aims mostly at promoting or inhibiting use of a certain form of energy. This form of intervention is mostly effective in countries that rely on importation of energy mostly in form of coal and crude oil. Increase in taxation results in increased production costs which in turn cause increase in purchase price of the product. Trying to find a perfect example for this scenario, the US is tending to have very high taxation rates for fossil fuels like coal. This is mainly experienced in states like South Carolina and New Orleans (Gabriella, 2011).

A decrease in the taxation level may also be taken means of encouraging use of certain sources of energy. For example, in the United States, there is generally reduced taxation for devices used to tap natural sources of energy. This is what can be claimed to have led to development of solar power regions where the people are served with electricity produced by tapping solar energy or wind power. Connecting to the grid providing solar electricity is generally cheaper compared to connecting to power grids of power stations using non- renewable power sources (Gabriella, 2011).

Having covered the forms of government intervention in energy industry, the focus of the paper now turns to the debate under illumination. The topic under discussion is: should the government have influence on the energy industry.

In support of the topic, the first aspect to present is that the influence is very essential as it prevents any form of exploitation. Taking a good example, consider a product where only the market forces of demand and supply affect the price of the product. In most cases, the energy producers are monopolies or cartels which can easily collude to set a certain price for their products. By this advantage, the supplier can set prices to levels which are unrealistically expensive with an aim of exploiting the users. Since the buyers have little or no alternative to the power need, they are forced to purchase the product at the high costs. This translates in an increased production cost for even essential products running the economy. This would in turn result in inflation which is undesirable for an economy. To curb such a scenario, the government must influence the market of energy. This would in a way regulate the supply and production costs. As a result, the economy would not face any form of abrupt inflation which may leave I tin ruins. A good example on this is the economy of Venezuela. It is funded significantly by oil trade. This means that without any government influence, the economy of the country fluctuates as the international oil prices. For this reason, the government influences the oil business to a certain degree that a minimum cost per barrel is fixed by the government making is possible for the economy to fluctuate minimally with the perturbations in the international oil prices. An example based on the consequential effects in case government influence in energy sector lacks is in a country that relies on agriculture to stabilize its economy like Kenya. Consider a scenario where petroleum products prices are not influenced in any way by the government and the people decide use diesel or gasoline powered engines to make agriculture productive. Any hiking in prices can destabilize the economy thus the government must set a maximum price for the products to protect the people from exploitation by the suppliers (Doug, 2011).

Another point in support of the motion is the fact that government influence reduces chances of hoarding of the energy. If government influence is not incorporated in determining the cost of energy, the suppliers can easily turn to hoarding and creating artificial shortage which would in turn result in an increase in excess demand for the energy. The people become desperately in need for the energy thus pay any amount for the energy. This may lead to exploitation of the people by the investors. A good illustration can be drawn from the United States northern states. Consider a state near Canada where heating is very essential. Supply for electricity must be regulated by the governments since leaving this issue to the suppliers only would result in exploitation of the people in US (Doug, 2011).

Turning to use of incentives, the government influences the resources to be exploited. It has been noted of late that there has been overexploitation of some natural resources. For example, in the United States, coal has been extensively used to drive electric power stations. This has resulted in excess exploitation of the coal resources making the coal suppliers to run much low. As a result, the miners try to dig deeper to get more coal endangering their lives. Due to the use of coal to produce the energy, there has been excess pollution of air in the US. The US has of late decided to sponsor and probably subsidize the cost of setting up power stations using natural and renewable sources of energy. This can be claimed to be the reason why the US has set up so many solar power stations and subsidized the cost of purchasing solar kit for either heating or lighting (Justin, 2012).

Lastly in support of this issue, the government earns some revenue from the influence. This is mainly when an investor decides to set up an energy industry in an area that is not specially set for that purpose. This has made the government to generate a lot of revenue and control the number of investors in the business of energy sector. A good example is in UAE where solar power stations are minimally taxed. Any investor willing to transact any business in the oil industry is likely to pay a lot of tax to the UAE government. This generates a lot of revenue for the government and in turn creates a form of control in this business (Doug, 2011).

However, this influence is not always advantageous to the energy sector. This is due to the numerous negative impacts of government influence in the industry. One of the main negative impacts lies in the fact that government influence can scare away potential investors. An investor can have an innovation of a certain energy source but due to the high taxation levied on such sources of energy the investor feels demoralized. A good example is in Korea. There has been an increase in use of atomic energy which has developed over time. Recently, any player willing to join atomic energy production is supposed to pay exorbitant amounts in registration and taxation. This scares away investor who may think of investing in this sector in Korea. A good example is the go slow that occurred when America tried to invest in the sector in Korea (Allen, 1998).

Another negative impact is in the fact that use of incentives may lead to significant amounts of taxpayers' money being used to cover for projects that are not very economical to invest in. this results in losses making the taxpayer to be taxed more. Another common form of incentive used is the subsidy in some devices that consume low power or are used to exploit natural sources of energy. This may be taken to be advantageous only but looking at the other side as well, what economic profit will the manufacturer get. In case the producer sells products at a higher rate, in which way will the government regulate the prices? These questions make use of subsidies to be taken just as a means of using taxpayers' money in an inappropriate manner (Allen, 1998).

Lastly on the negative impacts, it may lead to overexploitation of some resources. This may result in ecological imbalance which may result in environmental degradation. Taking an example from the US, in the 1940s there was modernization wave which left the US industrialized. The people of US started using machinery heavily and this led to great environmental pollution. As a result, air pollution caused rusting of buildings and general destruction due to acid rain. Exploitation of renewable sources like use of solar power and wind energy requires a large space to set up. Encouraging such a project can result in more people become landless or simply squatters (Allen, 1998).

Having covered the above arguments in details, my opinion on the motion still lies in support of this macroscopic factor to the energy industry. This is due to the protection that the people get from the government through the regulation. Leaving the market forces to determine the equilibrium levels of supply and demand can make the people to be heavily exploited by the suppliers (Allen, 1998).

In conclusion, government influence is of great importance in any economic activity. The main importance is in the fact that it is the right of the citizens to be fully protected against exploitation by any person. By influencing the market in the energy industry, the government fulfills this obligation to its citizens. The other aspect of government influence in any business is to act as a means of controlling the maximum of minimum standards or quality that is accept in the industry. This helps in ensuring that the population is served with the best quality products that the country can afford. However, government influence can also have negative impacts. A good example is in the fact that government influence can deter a potential investor from investing in a region. It also requires a lot of money which is used as incentives for the investors. This adds to the burden carried by the taxpayers. All in all, this macroeconomic effect is very crucial in regulating demand, supply and quality of the products that the people are served with (Justin, 2012).

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