# \*\*\*AFF ANSWERS\*\*\*

# \*\*\*Uniqueness Answers\*\*\*

## Oil Prices not stable – ME Instability

### Alt causes – Middle east instability hikes oil prices already

Don Stowers, contributor to the Oil and Gas Financial Journal, 3-1-2011, “Middle East unrest causing instability in world oil markets,” Oil and Gas Financial Journal, http://www.ogfj.com/articles/print/volume-8/issue-3/editor-s-comment/middle-east-unrest-causing-instability-in-world.html

What is driving the current run-up in crude oil prices? The uncertainty caused by the conflicts in the Middle East is a significant factor. Prices seemed to rise almost overnight when Libya, the fourth-largest oil exporting nation in Africa, was forced to cut off an estimated 75% of its 1.7 million barrels per day of production, 1.5 million barrels of which are exported, mostly to Europe. Think what might happen to oil prices if this were Saudi Arabia, the world's largest oil exporter.

### Gas prices are hurting since turmoil spreading in the Middle East

Hispanic Business, 7-21-2012, HispanicBusiness.com, “Gas Prices Rise Amid Series of Incidents in Middle East”, http://www.hispanicbusiness.com/2012/7/21/gas\_prices\_rise\_amid\_series\_of.htm

Gas prices jumped 7 cents a gallon over the past week amid escalating tensions in the Middle East. The average price of regular unleaded gas was $3.33 a gallon Friday compared with $3.26 a gallon a week ago, according to AAA's Daily Fuel Gauge Report.¶ ¶ Statewide, the average price of regular unleaded gas rose 8 cents a gallon to $3.33 Friday from $3.25 a week ago.¶ ¶ Industry experts said the oil market is responding to a series of events in the Middle East, including concerns that Iran will try to block oil shipments through the Strait of Hormuz and increased fighting in Syria.¶ ¶ "One-third of the world's seaborne oil passes through the Strait of Hormuz," said Tom Crosby, a spokesman for AAA Carolinas.¶ ¶ Michael Walden, an economist at N.C. State University, said there was a big jump in oil prices on Thursday because of incidents in the Middle East.¶ ¶ "Anything that happens in the Middle East that suggests the potential for some outbreak of violence can cause oil prices to go up, which then translates into higher gas prices," Walden said.¶ ¶ Another factor causing gas prices to climb upward is vacation season. ¶ "This is our drive time in the summer," Crosby said. "This is the season when we as Americans drive the most."¶ ¶ But motorists are still paying less at the pump than they did a year ago, when the average price of gas was $3.66 a gallon in the Triad and $3.67 a gallon in North Carolina.¶ ¶ Also, some decrease in prices could come because the price of oil fell Friday amid new concerns about Europe's economy. Benchmark oil fell $1.22 on Friday to end at $91.44 a barrel in New York. Brent crude, which is used to price international varieties of crude, was down 97 cents to finish at $106.83 in London. It was the first decline after seven straight gains.¶ ¶ The main focus for traders was Spain, where the government predicted that the country's recession will extend into next year and the region of Valencia said it needed help from the central government to pay its bills.¶ ¶ But Germany also was a concern as finance officials there said growth in Europe's strongest economy likely slowed somewhat in the second quarter.¶ ¶ Walden doesn't think gas prices will get as high as they were a year ago, but he does expect them to continue to edge up.¶ ¶ "I think we could probably see another 15 to 20 cents a gallon higher," he said.

### Oil prices based on foreign countries, suffering from disruptions

Martin Bodenstein and Luca Guerrieri, Federal Reserve Board, 2011, Oil Efficiency, Demand, and Prices: a Tale of Ups and Downs, http://www.federalreserve.gov/pubs/ifdp/2011/1031/ifdp1031.pdf

oil demand and oil prices rise because of strong foreign aggregate demand, worldwide activity expands rather than contracting, as it would for price increases stemming from foreign oil supply disruptions. Similarly, U.S. activity reacts differently to oil price movements that originate in the U.S. rather than abroad. Disagreement persists regarding the relative importance of oil supply and demand factors in determining oil prices. For instance, Hamilton (1983, 2003, 2009) emphasizes oil supply disruptions in explaining major runups in oil prices, while Kilian (2009) argues that shocks to oil demand have driven oil prices historically. In addition to the challenges of identifying empirically the sources of fluctuations – domestic or foreign, demand or supply - studying the macroeconomic effects of oil price movements is further complicated by the response of monetary policy. Monetary authorities are often seen as contributing to the slowdown in economic activity associated with oil price increases by raising policy interest rates. Perhaps most prominently, Bernanke, Gertler, and Watson (1997) argued that the output decline that coincided with the oil price hikes of the 1970s and early 1980s could have been largely reduced by an alternative policy response.1 The international dimension of oil trade matters beyond distinguishing whether oil price fluctuations originate at home or abroad. Due to intertemporal consumption smoothing, an oil-importing country, such as the United States, offsets oil deficits associated with oil price increases by expanding nonoil trade. The expansion of nonoil net exports buffers the response of gross domestic product and is accompanied by a depreciation of the dollar that affects import prices and inflation.

## Oil Prices Low

### The prices of oil are starting to fall, slowly

AP News, 7-12-2012 BloombergBusinessweek.com, “Oil falls on concerns about global economy” http://www.businessweek.com/ap/2012-07-12/oil-prices-hover-below-86-a-barrel-in-asia

NEW YORK (AP) — The price of oil is falling as the latest batch of data deliver mixed views of the global economy.¶ Reports out of Europe on Thursday said borrowing costs rose in Spain and unemployment rose in Greece, stoking concerns about the region's financial crisis. Meanwhile, the number of people filing for unemployment benefits in the U.S. plunged last week.¶ Benchmark U.S. crude fell 87 cents to $84.94 per barrel in New York, while Brent crude lost 88 cents to $99.35 per barrel in London. Prices have reversed course almost every day this month.¶ Natural gas futures dropped more than 3 percent after the government said U.S. supplies grew more than expected last week. Retail gasoline prices were flat at a national average of $3.384 per gallon (3.7 liters).

### Prices already low because of euro debt crisis.

Shai Ahmed, CNBC Associate Editor, 6-13-2012, “Oil Prices Hit by Euro Zone Crisis; Demand at Risk: IEA” http://www.cnbc.com/id/47793002/Oil\_Prices\_Hit\_by\_Euro\_Zone\_Crisis\_Demand\_at\_Risk\_IEA

The deepening euro zone debt crisis saw oil prices shave off around 20 percent from their 2012 highs as the supply/demand ratio narrowed, according to the latest International Energy Agency report. The report said the springtime slump in oil markets accelerated in May, coinciding with the Greek election impasse – re-elections take place on June 17 – as the euro zone debt crisis took an even more sober turn with Spain having sought its own bailout for its banking system at the weekend. However, it was not just Europe that saw downward pressure on oil prices; a slowdown in China and a better supply demand balance also helped to keep prices lower.

### Euro debt crisis ensures low prices—recent improvements aren’t significant.

Associated Press, 7-20-2012, “Oil prices fall on renewed concern about Europe; natural gas rises above $3” http://www.washingtonpost.com/business/oil-near-92-in-asia-as-market-weighs-weak-demand-picture-against-rising-middle-east-tensions/2012/07/20/gJQAb7eIxW\_story.html

The price of oil is dropping on fresh concerns about Europe’s economy. Benchmark oil fell $1.22 on Friday to end at $91.44 per barrel in New York. Brent crude, which is used to price international varieties of crude, was down 97 cents to finish at $106.83 in London. This was the first decline after seven straight gains. The main focus for traders was Spain, where the government predicted that the country’s recession will extend into next year and the region of Valencia said it needed help from the central government to pay its bills. But Germany was also a concern as finance officials there said growth in Europe’s strongest economy likely slowed somewhat in the second quarter. Meanwhile, in the U.K. the government said it had to borrow more than expected last month. Europe’s lengthy battle with a massive government debt crisis has affected industries in other countries, such as the U.S., that do business there. It also has cut demand for oil and other energy products. Oil had risen about 10 percent over seven days on concerns that renewed tensions between the West and Iran could result in a disruption of oil supplies from the Persian Gulf. “After the long run-up in prices we’ve had the last 10 days or so, I think (events in Europe) kind of reminded people that the demand picture is still not very rosy,” said Michael Lynch, president of Strategic Energy & Economic Research.

### Oil prices low – fallen 30%

Reuters, 6-25-2012, reuters.com, “Supertanker sea storage looms as oil prices fall”, <http://in.reuters.com/article/2012/06/25/oil-storage-idINL6E8HP7V320120625>

LONDON, June 25 (Reuters) - Speculators could soon be hoarding crude oil in supertankers off the coast of Britain and other European countries if prompt oil prices keep falling, shipping and oil industry executives say.¶ A glut of crude oil in western spot markets is forcing the price of oil for immediate delivery below forward futures costs, and it could soon be profitable to buy oil, store it and sell it later in the year at higher prices.¶ Three years ago - the last time oil prices fell sharply on world spot markets - dozens of supertankers were moored along the English south coast and off Scotland as floating storage.¶ Nearby spot oil prices have almost fallen enough to make that happen again and the trend is likely to continue, opening up a trading window shortly, analysts and shipping firms say.¶ "We could soon see a return of floating storage," said Olivier Jakob, analyst at consultancy Petromatrix in Zug, Switzerland. "For floating storage to be workable, the spreads need to widen a little bit, but not much. We aren't far away."¶ Oil prices have fallen 30 percent from this year's peak over $128 per barrel, with nearby North Sea Brent crude oil futures on the InterContinental Exchange now about $90.¶ The resumption of Libyan crude oil production after almost a year of civil war, a big rise in Middle East oil output, global economic slowdown and the closure of several oil refineries have left the prompt oil market heavily over-supplied.¶ Brent for immediate use is trading at a discount of around $1 to August futures and oil for delivery in a year's time is around $2 dearer, in a price structure known as 'contango'.¶ The contango is not yet quite deep enough to pay for oil storage and other costs such as financing, but it has been widening steadily this month and storing oil at sea could soon be a viable option for oil companies and trading houses.¶ ROLL LOSSES¶ This week money managers controlling billions of dollars of pension funds and other investors will decide where to allocate their portfolios in the third quarter and they are likely to move out of prompt Brent if the contango looks set to persist.¶ A contango brings 'roll losses' for investors if they have to sell out of a weak front futures contract and buy more expensive later months as prompt months expire.¶ This would help depress prompt oil, deepening the contango.¶ "A contango feeds itself," said a senior trader with a large U.S.-owned oil company. "No one wants roll losses every month."¶ Average daily earnings for supertankers known as very large crude carriers, or VLCCs, on the benchmark Middle East Gulf to Japan route - the major market barometer - reached $11,159 on Friday, down slightly from Thursday, Baltic Exchange data show.¶ These are poor returns for ships that can carry up to 2 million barrels of crude oil, and they make long-term chartering of VLCCs an attractive alternative for some tanker owners.¶ The current cost of a one-year time charter for a VLCC runs from around $23,000 per day, and shorter charters, for three to six months, would start from around $25,000 per day - or about 37 cents per barrel of crude oil per month.¶ The August-September ICE Brent futures spread traded on Monday at up to 34 cents - just 3 cents lower.¶ Frode Morkedal, analyst with ship brokerage and investment bank RS Platou Markets in Oslo, said onshore stocks of crude oil were rising fast and offshore storage options could soon open.¶ "A supply overhang is building as the short term Brent curve has moved into a small contango," Morkedal said. "On-land inventories are not full, but should the overproduction of oil continue ... floating storage may again become a hot topic."¶ Oil traders say that for floating storage trading plays to be a serious option for most speculative traders, the spread between Brent futures months would have to exceed 40 cents per barrel and a margin of 50 cents would be better.¶ "Even if spreads are not wide enough yet to bring floating storage, they will encourage traders to hold cargoes longer," Jakob said. "That will put extra pressure on prompt prices."

# \*\*\*Link Answers\*\*\*

## Link Turn

### Aff leads to long-term stability of prices by decreasing oil reliance

Lahcen Achy, 5-1-2012, Nonresident scholar at the Carnegie Middle East Center in Beirut, an economist with expertise in development and institutional economics, as well as trade and labor, with a focus on the Middle East and North Africa, research fellow in the Economic Reform Forum and the Moroccan Academic Liaison for the Researchers’ Alliance for Development, Ph.D., Economics, “Libya’s Economy: On Path to Recovery but Facing Hard Challenges”, http://carnegieendowment.org/2012/05/01/libya-s-economy-on-path-to-recovery-but-facing-hard-challenges/aq7l

The Libyan oil minister recently announced that oil production is approaching pre-war levels. The oil sector is the backbone of the Libyan economy, so such a statement is of high importance. It accounts for 70 percent of GDP, over 95 percent of exports, and 90 percent of government revenue. With the current level of oil production and high prices on international markets, the Libyan economy is expected to recover this year. Yet, to ensure long-term stability, Libya must move away from its dependence on oil toward a diversified economy

## No Link– China

### Chinese decreases in consumption should have triggered the link

Dennis U. Atuanya, Oil and energy analyst. Consultant geologist and geophysicist with about 3 decades of activity in the energy sector (from exploration and production through downstream and marketing services to geopolitical and policy issues). B.Sc. Hons (Geology), M.Sc. (Geophysics), April 24, 2012 “Global Crude Oil Prices: Why Volatility Is Likely To Endure,” http://seekingalpha.com/article/522941-global-crude-oil-prices-why-volatility-is-likely-to-endure

In the United States, the world's top oil consumer, Department of Energy data show that crude oil stocks have been on an upward trend (and for the week of 13 April 2012 stood at a 35-week high) while consumption has been declining. Even in China, a major driver-country for global oil demand, Financial Times reports that consumption for December rose by only about 1% year-on-year, compared with the year-ago level of about 10%. The country's demand growth for diesel for example has slowed and is projected to remain weak through 2Q as its construction, transportation and manufacturing industries pull back a bit. In addition, recent increases in official diesel prices have not helped demand. The Center for Global Energy Studies, CGES, has reported an increase in the country's February 2012 oil imports to 5.9 million bpd, from 5.3 million bpd for year-ago levels; however such increase may well reflect a strategic inventory build-up in the light of declining supply from troubled and sanctions-buffeted Iran.

## No Link – Price rise inevitable

### Prices will rise in the long term even with falling US demand

Lisa Desjardins, “American Sauce: US Oil Dependence 101” 2-28-2011, CNN, <http://politicalticker.blogs.cnn.com/2011/02/28/american-sauce-us-oil-dependence-101/> MGE)

Is the U.S. on track to become more or less dependent on imported oil? - For the next few decades, the answer is actually less. The Energy Information Administration (part of the US Dept. of Energy) believes the U.S. will need to import 45% of its petroleum in 2035. - That decrease is attributed mostly to an expected rise in biofuels, like ethanol. But, - Many experts point out that by 2035 oil prices could be significantly higher. - This, as the world depletes the most easy-to-reach oil reserves and may need to use much more energy (and more funds) to reach remaining sources. – And as supply may become harder to manage, world oil demand is expected to keep rising. Countries which now export oil may begin to export less and keep more supply for their own use.

## No Link – Speculators > Demand

### Speculators determine the price of oil—demand doesn’t matter

Charleston Gazette, 5-26-2011, “Cables show Saudi Arabia often warned U.S. about oil speculators,” Lexis

When oil prices hit a record $147 a barrel in July 2008, the Bush administration leaned on Saudi Arabia to pump more crude in hopes that a flood of new crude would drive the price down. The Saudis complied, but not before warning that oil already was plentiful and that Wall Street speculation, not a shortage of oil, was driving up prices. Saudi Oil Minister Ali al-Naimi even told U.S. Ambassador Ford Fraker that the kingdom would have difficulty finding customers for the additional crude, according to an account laid out in a confidential State Department cable dated Sept. 28, 2008. "Saudi Arabia can't just put crude out on the market," the cable quotes al-Naimi as saying. Instead, al-Naimi suggested, "speculators bore significant responsibility for the sharp increase in oil prices in the last few years," according to the cable. What role Wall Street investors play in the high cost of oil is a hotly debated topic in Washington. Despite weak demand, the price of a barrel of crude oil surged more than 25 percent in the past year, reaching a peak of $113 May 2 before falling back to a range of $95 to $100 a barrel. The Obama administration, the Bush administration before it and Congress have been slow to take steps to rein in speculators. On Tuesday, the Commodity Futures Trading Commission, a U.S. regulatory agency, charged a group of financial firms with manipulating the price of oil in 2008. But the commission hasn't enacted a proposal to limit the percentage of oil contracts a financial company can hold, while Congress remains focused primarily on big oil companies, threatening in hearings last week to eliminate their tax breaks because of the $38 billion in first-quarter profits the top six U.S. companies earned. The Saudis, however, have struck a steady theme for years that something should be done to curb the influence of banks and hedge funds that are speculating on the price of oil, according to diplomatic cables made available to McClatchy Newspapers by the WikiLeaks website. The cables show that the subject of speculation has been raised in working group meetings between U.S. and Saudi officials, in one-on-one meetings with American diplomats and at least once with former President George W. Bush himself. One cable recounts how Dr. Majid al-Moneef, Saudi Arabia's OPEC governor, explained what he thought was the full impact of speculation to U.S. Rep. Alan Grayson, D-Fla., who in July 2009 was in Saudi Arabia for the first time. According to the cable, al-Moneef said Saudi Arabia suspected that "speculation represented approximately $40 of the overall oil price when it was at its height." Asked how to curb such speculation, al-Moneef suggested "improving transparency" - a reference to the fact that most oil trading is conducted outside regulated markets - and better communication among the world's commodity markets so that oil speculators can't hide the full extent of their trading positions. Al-Moneef also suggested that the U.S. consider "position limits" - restrictions on how much of the oil market a company can control - something the CFTC is considering. But the proposal to prevent any single trader from accumulating more than 10 percent of the oil contracts being traded hasn't received final approval, and the CFTC also has yet to define what it considers excessive speculation. Another confidential document from the embassy in Riyadh, dated Feb. 14, 2007, indicates that Saudi officials had concluded years ago that speculation played at least as big a role in setting oil prices as traditional issues of supply and demand did. Recounting the presentation by Yasser Mufti, a planner for Aramco, at a conference of U.S. and Saudi officials, the cable said: "The Saudi analysis indicated a link between higher oil prices and the influx of investor funds into the oil markets." Indeed, the cable noted, "As the oil futures markets play an increasingly large role in setting world oil prices, (Mufti) remarked his team was now obtaining better insights into prospective oil prices from banks than from those working in the real oil sector, such as refiners." A McClatchy investigation earlier this month showed the extent to which financial institutions now influence the price of oil. Until recently, end users of oil - such as airlines, refineries and other consumers of fuel - accounted for about 70 percent of oil trading as they tried to hedge against price fluctuations. Today, however, speculators who will never take possession of a barrel of oil account for that 70 percent of oil futures trading, and the volume of speculative trading has grown fivefold. That's why the Air Transport Association, in a filing March 28 to the CFTC, called for aggressive curbs on speculators. The association complained of rapidly climbing jet fuel prices, which have outpaced the rapid climb in crude prices and have reached their highest point since September 2008, right before the near-collapse of the U.S. economy. "At the same time, according to data recently released by the commission, speculators have increased their positions in energy markets by 64 percent compared to June 2008, bringing speculation to the highest level on record," wrote David Berg, the airline group's chief lawyer.

## No Link – Alt Causes

### Other factors are key to oil prices—Iran and US Fed

Dominick Chirichella, 6-25-2012, “Oil back on defensive” International Business Times, <http://www.ibtimes.com/articles/356073/20120625/oil-back-defensive.htm>

Technically the spot WTI contract is struggling to get back above the $80/bbl level and is now in the third trading session in a row with the majority of trading taking place below $80/bbl. The next major level of technical support is around $75/bbl hit back in early October of 2011. Barring any major bullish turn of events the probability of testing that level is increasing. Brent has now been trading below its last support level of around $95/bbl for the last four trading sessions in a row. The next major support level for the spot Bent contract is in the $82 to $83/bbl area. Much like WTI barring any bullish news the likelihood of lower prices for both of these commodities from a technical perspective is increasing. The big wild cards at the moment that could have an impact on the direction of oil prices that we all need to watch very closely is OPEC/Saudi Arabian production levels and action by the US Fed and other major central banks in cranking up the money printing presses. I am not certain that Saudi Arabia and some of its close allies within OPEC are going to be ready to cut production in the very short term. I still believe that one of the main reasons why the Saudi's are producing at the current high levels is to help the west to put pressure on Iran along with the sanctions placed by the west. With negotiations still continuing (technical meeting next week in Turkey) and the EU Iranian crude oil purchase embargo set to officially start on July 1 I view the lower price for oil as another contributor to keeping Iran at the negotiating table. I expect high OPEC/Saudi Arabian crude oil production levels to continue well into July...even if prices fall further from current levels. The second variable out there is will the US Fed and/or other major central banks ramp up the printing presses and flood the world with a major quantitative easing program(s)? Certainly that would contribute to turning the current risk asset downtrend around...at least for a period of time. However, I do not see the US doing anything until the August Fed meeting in Jackson Hole at the earliest and that is only if the employment situation deteriorates further from current levels. The UK has continued to ease as has Japan and China. The place to watch is will China get even more aggressive and lower short term interest rates even further and/or actually announce a large stimulus program if in fact their economy is slowing even faster as alluded to in the NYT article. OPEC and quantitative easing remain on the radar as potential trend changers.

# \*\*\*Internal Link Answers\*\*\*

## US Demand not key to prices

### US Demand irrelevant—emerging countries offset

Trade and Forfaiting Review, 6-18-2012, “Another oil shock? What US$120 a barrel means for world growth” Trade & Forfaiting Review is a leading trade and supply chain finance information resource providing essential updates to professionals all around the globe. http://www.tfreview.com/news/commodities/another-oil-shock-what-us120-barrel-means-world-growth

On the demand side, the dynamic growth of emerging countries, whose economies are more energy-intensive than those of advanced countries, explains why the demand for oil continues to rise even while global economic growth has been slowing down. Energy intensity (i.e. energy consumption in relation to GDP) is 41% in the former Soviet Union republics and a markedly improved 19% in China compared to 16% for OECD countries. Additionally, since the beginning of the year, several new factors on the supply side have contributed to the rise in oil prices. Serious production disruptions in the non-OPEC countries have deprived the market of a million barrels a day since the beginning of the year. Falls in production in Syria and Yemen, in Sudan as well as in Canada and the United Kingdom, helped push prices to a peak of U$128 a barrel in early March 2012. The markets are anticipating the implementation from July of European sanctions against Iran as well as the impact of the American financial sanctions which took effect in March.

### Price increases because of geopolitical issues, not demand

Lennox Yieke, commerce student, Egerton University, 7-3-2012, “Oil price hits high of $101 per barrel amid tensions from Iran” http://www.valuewalk.com/2012/07/oil-price-hits-high-of-101-per-barrel-amid-tension-from-iran/

As we reported yesterday, Iran was a melting pot of emotion and anger as it was yet again hit by another economic sanction on Sunday. The oil potent state passed on candid threats on how it would seal off access to the Hormuz Strait. Today, tensions from Iran have sparked off a lot of mixed reactions and in the process contributed to an increase in oil price. The price per barrel came in at $101- a high not recorded ever since June 11th. This comes as the big players in the global front turn against Iran threatening action for what has been deemed by many as irrational and uncalled for. All the same, Iran is not willing to back down. In fact, it has fully displayed that it is ready for anything. Today, the Middle Eastern state revealed that it had successfully tested the effectiveness of missiles capable of striking Israel in response to earlier threats of military action. While Brent crude was up by $3.86 to $101.20 a barrel, U.S crude oil recorded a steeper increase. The price per barrel in the U.S came in at $87.75- a $4 increase from previous prices.

## Alt causes – China

### China means stable oil market

Brian Hicks, senior writer and columnist, South Carolina Journalist of the Year, 6-24-2012, “Yes, lower oil prices are good for everyone (except drillers in shale oil), but it doesn’t mean they’re permanent.” Energy and Capital's Weekend Edition

As I write this, oil has broken the $80-a-barrel mark. This is the first time crude has traded below $80 since last October. Many oil market observers are rejoicing, pronouncing "the era of high oil prices" over as new supply comes to the market from the Bakken and Eagle Ford. Some are even calling for oil to hit $40 a barrel. And who can blame their enthusiasm? This is a win-win for the economy and the consumer alike. Lower gasoline prices mean more cash available for discretionary spending! Not so fast... Yes, lower oil prices are good for everyone (except drillers in shale oil), but it doesn’t mean they’re permanent. In fact, one particular market action by the Chinese may predict where oil prices are headed in the future. According to a recent report by Bloomberg: Taking advantage of lower oil prices, China is hoarding crude at the fastest rate since the Beijing Olympics four years ago as the slump in international prices prompts it to import unprecedented volumes even as refining slows. The world's second-biggest oil consumer built up a surplus of about 90 million barrels of crude in the first five months of the year, government data show. China, which imports more than half its crude, is constructing about 200 million barrels of storage capacity in the second stage of a plan for strategic reserves to help it manage price swings. Overseas purchases rose to a record last month even as processing by refiners including China Petroleum & Chemical Corp. (600028) and PetroChina Co. slackened. China is one of the main reasons I believe oil prices will remain high. Last year China overtook the United States as the world’s largest energy consumer. China is now the world’s second largest oil consumer. In 2010, China also overtook Japan as the world’s top automaker and Germany as the world’s largest auto exporter.

### China is huge consumer – determines global oil prices

Mikkal Herberg, BP Foundation Senior Research Fellow for International Energy at the Pacific Council on International Policy and David Zweig, Chair Professor, Division of Social Science, Hong Kong University of Science and Technology, and Director of the Center on China’s Transnational Relations, April 2010, “CHINA’S “ENERGY RISE”, THE U.S., AND THE NEW GEOPOLITICS OF ENERGY,” http://www.pacificcouncil.org/document.doc?id=159

As China’s energy rise mirrors its broader strategic rise, it poses similar challenges for the United States (U.S.) and the established Western-dominated energy markets and institutions. China will be crucial in three central energy arenas. The first revolves around its burgeoning impact on global oil demand and prices, as well as on oil market governance. China has replaced the U.S. as the growth engine for global oil demand with some now calling China the new oil “swing consumer.” Beijing’s future decisions about oil use and efficiency are now deeply consequential for world oil prices and the energy security of the U.S. and other major oil importers. China’s domestic oil agenda is no longer merely an internal affair – decisions made in Beijing have profound global energy security implications. China’s growing impact is vital for the future of global energy governance; will China seek to build its future energy security on markets or mercantilism? Will China support the West’s efforts to maintain open global oil markets and boost investment and access to global oil supplies through participation in the existing institutions of multilateral oil governance? Or will Beijing continue along its current path of seeking privileged access to oil supplies through close collaboration with its national oil companies (NOCs), bilateral energy and financial diplomacy, and a highly political approach to securing oil supplies? Beijing’s choices could powerfully reshape the flexible, competitive open oil market structures and institutional arrangements of the world energy system that evolved in the wake of the 1970’s oil shocks.

### Asia will sustain demand and render US influence on prices insignificant

Mikkal Herberg, BP Foundation Senior Research Fellow for International Energy at the Pacific Council on International Policy, as part of the national bureau of asian research nbr conference report, October 2009, “The New Energy Silk Road: Implications for the United States,” http://www.scribd.com/doc/68545544/The-New-Energy-Silk-Road-The-Growing-Asia-Middle-East-Energy-Nexus

But as Asia’s dependence on Gulf energy inexorably grows over the next decade and the Gulf states increasingly see their energy market and investment future growing in Asia, it seems likely that this “new silk road” is sowing the seeds of significant change in the underlying terrain on which the United States has been operating for the past 40 years. The implications span both the global energy markets and the future of regional and global geopolitics. For energy markets, while the Gulf has been and will remain the “swing producer” for world oil supplies; developing Asia, and especially China, have now become the global “swing consumer,” replacing the United States in this role. This is fundamentally changing the outlook for global energy investment, resource access, oil prices, and the role of national oil companies (NOC), particularly in an era likely to be characterized by much higher energy prices and intense competition to access supplies. In particular, China’s enormous and fast-growing demand for oil and petrochemicals and its burgeoning investment capacity, combined with the growing competitiveness and capabilities of the Chinese NOCs and oil services industry, suggest that China’s future energy investment role and impact in the Gulf will far outweigh any role in the past played by Japan or Korea. Chinese as well as Indian NOCs are likely to be far more successful and competitive than Japan’s NOCs and more ambitious in scale than Korean energy companies. This converges closely with the Gulf’s, particularly Saudi Arabia’s, long-term vision of transforming into a global energy and petrochemical superpower—a new stage of Saudi ambition and growth strategy in which China and India are key huge growth markets. The energy convergence between these states and the Gulf seems therefore destined to grow enormously in scale and scope, which suggests that both China and India are likely to focus progressively more assertively on their vital interests in the Gulf. At the same time, the energy security policies of China and India are not nearly as aligned with the United States as are those of Japan and Korea. Particularly in the case of China, it seems unlikely that Beijing will be content to follow Washington’s strategic lead in the Gulf in ten to twenty years, given the sharp policy differences that exist over Iran, U.S. dominance in Iraq, competitive energy diplomacy and markets, and overall Middle East policy.

## Alt Causes – Iran

### Alt Cause – Iran conflict determines prices—demand irrelevant

Grant Smith, Bloomberg BusinessWeek staff writer, 7-3-2012, “Oil Rebounds in New York on Global Stimuluts Speculation” http://www.businessweek.com/news/2012-07-03/oil-rebounds-in-new-york-on-global-stimulus-speculation

An EU embargo on Iran entered into full force on July 1 after exemptions on some contracts and insurance ended. Iran’s crude exports may drop to about 1 million barrels a day, Goldman Sachs said in a report yesterday. Iran’s parliament is working on a bill to close the Strait of Hormuz to oil tankers linked to countries applying new European Union sanctions, a lawmaker from the national security committee told Jam-e-Jam newspaper. The waterway is a transit route for a fifth of the world’s crude. According to the draft bill, Iran would block vessels carrying crude to countries that have initiated EU sanctions, Javad Karimi-Ghodousi said in an interview with the Tehran-based newspaper. “Growing political tension and potential supply disruptions will be supportive for oil prices, particularly Brent, despite macroeconomic concerns,” Mark Pervan, the head of commodity research at Australia & New Zealand Banking Group Ltd. in Melbourne, said in a note today.

## Alt Causes – Russia

### Alt causes to Russian econ – government corruption

The Economist, 7-14-12 <http://www.economist.com/node/21558577>

With a population of over 140m and rapidly rising consumption, Russia’s domestic market could form a solid foundation for its manufacturers to become exporters, reducing its dependence on energy and minerals. There is a fair amount of industry left in Russia that has prospects of competing on global markets, if given a chance (see article). Potential strengths include aircraft, helicopters, engines, turbines, industrial gear such as pumps and compressors and, inevitably, military equipment. With fresh investment and good management—and the competitive shock of WTO entry—Russian industry’s productivity could improve sharply. There are signs of this happening. Some of Russia’s energy and metals oligarchs, such as Oleg Deripaska and Alexei Mordashov, are also putting money into reviving manufacturing. Foreign carmakers are pouring into Russia, building new factories and refurbishing old ones, as demand for cars booms. However, the motive for foreign firms has typically been to get around tariff walls and Russia’s nightmarish (and corrupt) customs-clearance procedures, rather than to make the country part of their global supply chains. Russia gets much less foreign investment than many other big emerging markets. It is an especially bad place to do business, with its suffocating bureaucracy, unreliable courts (just ask BP) and organised crime. Mr Putin has kept promising to fix this, most recently setting a target of moving the country from 120th to 50th place in the World Bank’s “Doing Business” league table. Skolkovo, an attempt to build a Silicon Valley-style cluster of technology firms on Moscow’s outskirts, will be exempt from some of the country’s stifling regulations (see article). But the state has yet to shake off its instincts to dominate industry and protect it from competition (and often loot the proceeds). Although a wave of part-privatisation is promised, the government has been going in the opposite direction, buying out Western shareholders in some Russian aerospace firms. Instead of seeing WTO membership as a way to force Russian industry to compete, the country’s lawmakers so far seem to be seeking to frustrate the club’s free-trade rules: last month they backed a plan to introduce a “recycling levy” which, in practice, would fall on imported cars but not Russian ones. Watching these machinations, pessimists fear that WTO membership will mean rent-seeking bureaucrats merely rejigging their bad habits, leaving Russia’s crony-capitalism intact. The more optimistic view is that it will constrain the worst instincts of Putinists more than they realise. It is a first step towards a rules-based system. The club’s impact will not be perfect, any more than it has been for China. But it does point to the path Russia must take if it is to prosper.

## Alt Causes – Geopolitical problems

### Geopolitical problems determine oil price fluctuations – Saudi Arabia is key

Ali Kadri, Senior Scholar at the Middle East Institute, National University of Singapore, April 15, 2012, “VOLATILE OIL PRICES: The Geopolitics of Speculation: Oil-price makers and takers,” http://www.globalresearch.ca/index.php?context=va&aid=30314

Crude oil prices exhibit high variability. More recently, the OPEC Reference Basket Price reached U$140 per barrel in July 2008, it declined to US$35 by the end of that year, and now prices are over the US$ 100 once more. Financial speculation, mainly the buying of crude oil futures, was behind the 2008 price surge and the present hike is driven by speculation around a very geopolitically charged future. It is worth noting that the much talked about geological considerations relating to oil-finiteness are not responsible for the oil price rises of either 1973 or 2004. Oil reserves matter in the long run; current oil prices have not been determined by beliefs that pertain to the long run. These geological considerations have an impact only on the forward looking or long-term price. But geopolitical problems unnerve the market instantaneously and are becoming portentous by the minute. Problems in the Gulf, past and present, have gained the semblance of permanence and, with talks of an inevitable attack on Iran, they are rising in intensity. The foremost short-term concern influencing oil-price relates to a sudden disruption of supply and a higher risk of a diminution in the cushion provided by Saudi Arabia which provides the bulk of surplus capacity.

## Russia – No Impact

### Low oil prices won’t hurt Russian economy – there are safety checks

Jason Bush, is a staff writer for Reuters, 7-2-2012. uk.reuters.com/article/2012/07/02/uk-russia-oil-idUKLNE86102820120702

Analysts say the impact on Russia of lower oil prices may be milder than during previous falls. "In the short term, in the next one to three years, we are fine," said Tchakarov. He noted that according to Finance Ministry calculations, every one dollar fall in the oil price means that the government loses around 55 billion roubles ($1.7 billion) in oil-related taxes over the course of a year. With the budget presently balancing at around $115 per barrel, an oil price of $90 per barrel, if sustained over a full year, would leave the government short to the tune of around $40 billion a year. But that is still just a fraction of the $185 billion that Russia has stashed away in two fiscal reserve funds, designed to stabilize the budget in just such an emergency. Even at $60 per barrel - the average oil price during the crisis year of 2009 - the reserve funds could cover the shortfall for about two years. "I find this worrying about the budget at this moment a little beside the point," said Clemens Grafe, chief Russia economist at Goldman Sachs. "The fiscal buffers they have to absorb this are going to be sufficient without cutting expenditure." Analysts also point out that since the previous financial crisis in 2008-2009, the central bank has radically changed the exchange rate regime, allowing the rouble to fall in line with the cheaper oil price. Since oil began its latest slide in mid-March, the rouble has lost around 15 percent of its value against the dollar. "The rouble weakened exactly in line with the oil price. And a weaker rouble is very good because it will secure the rouble equivalent of oil taxes for the budget," said Evgeny Gavrilenkov, chief economist at Troika Dialog.

### Internal Link Turn – Low oil prices key to stop Russian inflation

Agnes Lovasz, staff writer for Bloomberg Business group, 7-21-2012 .http://www.businessweek.com/news/2012-06-21/russian-economy-overheating-risk-to-abate-bank-of-america-says

The Russian economy’s risk of “overheating” from consumer spending is about to ease as slowing global growth pushes down oil prices, the key source of revenue for the world’s largest energy exporter, Bank of America (BAC) Merrill Lynch said. The country’s lowest-ever unemployment rate at 5.4 percent and wage growth of 15.1 percent in May, reported by the statistics office yesterday, prompted the bank to lift its end-2012 inflation forecast to 6.3 percent from 6 percent, Vladimir Osakovskiy, chief economist at Bank of America Merrill Lynch in Moscow, wrote in an e-mailed note today. Russia’s economy expanded 4.9 percent from a year earlier in the first quarter as consumers take advantage of record-low inflation, a boost in government spending and delays to increases in regulated prices. Even so, cooling global growth and falling oil prices are bound to limit the risks, Bank of America said. “All of these supportive factors and trends will reverse later in the year,” Osakovskiy wrote. “The economy should start to feel the impact of lower oil prices and a related decline in corporate profits.” Government spending expanded earlier this year as Vladimir Putin pledged $158 billion more for pensioners, the military and state workers before re-election as president in March. The jobless rate dropped 0.4 percentage point to 5.4 percent, matching a level reached four years ago and the lowest since at least 1999, the statistics office said. Corporate investment has also surged this year, rising 7.7 percent in May from the same month last year as the government eased social-security contributions for employers, Osakovskiy wrote. While inflation will probably breach the central bank’s 6 percent target, the goal of supporting economic growth “will likely outweigh inflationary concerns later in the year,” prompting the central bank to cut its overnight auction-based repurchase rate and benchmark refinancing rate by 50 basis points in the fourth quarter. The rates are at 5.25 percent and 8 percent, respectively.

### Internal Link Turn – Decreasing oil prices good – key to stop dependence and “dutch disease”

RT, 6-22-2012 <http://rt.com/business/news/oil-price-russia-economy-497/>

Russia will benefit from lower oil prices says Jim O’Neill, Chairman for Goldman Sachs Asset Management. This follows news that Russia is to adopt new policies to make its economy less dependent on the price of crude. "I think it will be good for Russia if oil prices go down”, Jim O’Neill told RT at the St. Petersburg International Economic Forum. Russia’s economy has long been heavily dependent on oil exports. Half of the budget revenues come from oil and gas. ”Russia certainly needs to be not so dependent on the drug of rising oil prices. It has to adopt and change to a quarter balance." And Russia seems to be heading in the right direction. President Vladimir Putin told the St. Petersburg Forum it was not enough to rely on an oil price of 115 dollars per barrel to achieve a deficit-free budget. “We need to diversify our economy away from total reliance on oil revenues, and turn to private capital as a source of growth,” he said. “Russia not only needs a deficit-free budget but a budget with a reserve of resilience.” Putin also said that “budget rules will be adopted soon under which "neither state liabilities, nor budgetary expenditure, nor long-term investment programs will depend on oil prices, and excess profits will go to replenish funds.” Analysts say Russia, one of the four BRIC countries, has become a particular surprise this year, Russia seems to be more sheltered from the current global economic crisis than it was during the 2008 and 2009 downturn. Its prospects are brighter than those of many other economies The country’s economy is expected to grow between 4-5 percent this year -much higher than any developed country. “If it carries on growing at these rates it will contribute more to the world this decade than he whole of Europe,” said Jim O’Neill. Together with the other BRIC nations Russia is ready to tackle the global economic crisis. “Emerging countries, including BRICS should play a bigger role in the world economy,” Russian President Vladimir Putin told the Petersburg International Economic Forum. Brazil, Russia, India, China and South Africa have recently offered their help, pledging to inject $75 billion into the IMF. China has offered $43 billion, while Brazil, Russia, India and Mexico promised $10 billion each. Meanwhile South Africa, Turkey, Colombia, Malaysia, New Zealand and the Philippines also promised smaller sums. The five BRICS nations represent 43 percent of the world’s population and about 18 percent of global economic output. They have about $4 trillion in combined reserves, with the lion’s share held by export powerhouse China. “If I had to rank them then China would be number one, Brazil -two, Russia number three and India four” Jim O’Neill of Goldman Sachs said. “Russia has lots of challenges, so does everybody else.”

## Oil Prices – No volatility

### Speculation and futures markets do not raise prices – policymakers mistake trends for truth

Lutz Kilian, Professor of Economics at the University of Michigan, received his Ph.D. in Economics from the University of Pennsylvania in 1996, April 21, 2012, “Speculation in oil markets? What have we learned?,” <http://www.voxeu.org/article/speculation-oil-markets-what-have-we-learned>

A popular view is that the unprecedented surge in the spot price of oil during 2003–08 cannot be explained by changes in economic fundamentals, but was driven by the increased financialisation of oil futures markets.1 It is well documented that, starting in 2003, there was an influx of financial investors such as index funds into oil futures markets. At about the same time, both spot and futures prices of crude oil began to surge, soon reaching unprecedented levels and peaking at a record high in mid-2008. A popular view among pundits and policymakers is that this sustained oil price increase was facilitated by the financialisation of oil futures markets. Non-academics such as Michael Masters and George Soros testified before the US Congress that financial investors were taking speculative positions that resulted in rising oil futures prices, which in turn were responsible for a surge in the spot price of oil. The accuracy of this view is not obvious at all and much of the academic debate centres on the evidence, if any, supporting this hypothesis. One reason that the Masters hypothesis has received a lot of attention among policymakers is that it seems to provide an obvious remedy to the problem of rising oil prices. To the extent that financial speculation is the cause of the problem of rising oil prices, policies aimed at controlling trades in oil futures markets can be expected to prevent increases in the price of oil. This interpretation has informed recent policy efforts to regulate oil futures markets as part of a larger effort by the G20 governments to impose more control on financial markets. While these policy reactions are perhaps understandable within the broader context of the global housing and banking crisis, they are not based on solid evidence.

### Speculations doesn’t cause volatility – academic consensus and studies prove

Lutz Kilian, Professor of Economics at the University of Michigan, received his Ph.D. in Economics from the University of Pennsylvania in 1996, April 21, 2012, “Speculation in oil markets? What have we learned?,” <http://www.voxeu.org/article/speculation-oil-markets-what-have-we-learned>

To conclude, one of the problems in this literature – and, more importantly, in the public debate about speculation – is that it is rarely clear how speculation is defined and why it is considered harmful to the economy. For example, the aim of recent regulatory changes in oil futures markets is to reduce price volatility, when increased oil price volatility was never the problem, but the persistent increases in the price of oil after 2003. Moreover, the literature has shown that the presence of index funds has, if anything, been associated with reduced price volatility. This view is also supported by historical analyses on the relationship between futures markets and price volatility. It is sometimes suggested that academics have failed to adequately address the issue of speculation in oil markets and that more research is needed to establish what seems obvious to many policymakers. This is not the case. Rather, extensive research has produced a near-consensus among academic experts that speculation has not been a key driver of recent oil price fluctuations. This finding has important implication for on-going policy efforts to regulate oil futures markets.

# \*\*\*Impact Answers\*\*\*

## Middle East Econ resilient

### Middle East Econ resilient

Tom Arnold, Reporter, 07-05-2012, “middle east economies outpace the rest of the world”, The National, <http://www.thenational.ae/thenationalconversation/industry-insights/finance/middle-east-economies-to-outpace-rest-of-world>

The IMF has revised upwards its estimate for economic growth in the Middle East and North Africa (Mena) this year.¶ The move comes despite a backdrop of deteriorating global prospects, the multilateral lender said yesterday.¶ It expects the regional economy to expand this year by 5.5 per cent, up from the IMF's previous forecast in April of 4.2 per cent.¶ But the fund trimmed its global outlook by 0.1 percentage points to 3.5 per cent, citing setbacks in the euro zone and a slowdown in emerging markets.¶ "In contrast with the broad trends, growth in the Middle East and North Africa will be stronger in 2012-13 relative to last year, as key oil exporters continue to boost oil production and domestic demand while activity in Libya is rebounding rapidly after the unrest in 2011," officials wrote in the report, which was released yesterday.¶ Growth is expected to subside to 3.7 per cent next year. Oil prices will fall back from an average of US$104 per barrel last year to $102 this year, before sliding further to $94 next year, the IMF projected.¶ Prices were calculated based on an assumed average price across European Brent, West Texas intermediate and Dubai crude.¶ The more positive outlook for the region is an indication of the greater stability in the Mena region since uprisings sparked unrest in several Arab countries last year.

## AT: Russia Econ

### Russian economic stability is resilient – new foreign investments and political stability prevents economic collapse

Konstantin Zavinosky, editor of “Geopolitics” magazine and researcher at the Institute of Advanced Studies in Geopolitics and Auxiliary Sciences (ISAG) quoted by PRNewswire, Rome, 2-7-2012, http://www.prnewswire.com/news-releases/political-and-economic-stability-in-russia-will-attract-foreign-investment-claims-institute-138864439.html

Konstantin Zavinovsky of the Institute of Advanced Studies in Geopolitics and Auxiliary Sciences, has said that relative economic growth in Russia in recent years has improved the quality of life in Russia, and the prospect of foreign direct investment into the country. Zavinovsky said: "The Russian economy in the last decade has seen a steady growth. After the economic crisis in the late 90s, starting from 2000 GDP per capita in Russia increased steadily rising from about $ 7600 in 2000 to nearly $ 17000 in 2011. This means that the index more than doubled in 10 years. The growth was interrupted only for a year because of the 2008 financial crisis which produced a slight decline in GDP per capita in 2009. But already next year, in 2010, this index started to grow and almost reached pre-crisis level. According to the forecasts of the International Monetary Fund (IMF) the index will grow steadily over the next year to nearly $ 22000 in 2016. We should add that in the same period inflation in the country declined from 20.78% in 2000 to 8.8% in 2011 (6.1%, according to the Russian Ministry of Finance - Minfin) and according to the forecast of the IMF inflation in Russia is to diminish in future and will reach 6.64% in 2014 (4.5%, according to Minfin). "With the rise of income the quality of life of Russian citizens in recent years has improved considerably. And thus the image of Russians in the world has also changed. For example, in Italy 10 years ago the Russians were seen as a backward people, rather poor and far away from European civilization, now the Russians have become a symbol of wealth and economic well-being. Russian customers are very appreciated in Italy both by small traders on the narrow streets of Rome, Florence andVenice and by the great Italian fashion designers such as Salvatore Ferragamo, who believes Russians to be "customers number one in Europe". Precisely for this reason at the end of last year the Michele Norsa CEO announced that "over the next five years we expect to double sales volume in Russia, where the growth will be +20% annually over the past 24 months". Dirk Bikkemberg also stated that Russian clients are the target of extreme importance because thanks to them flagship store in Milan, considered by many as a loss, not only got in balance with the accounts but also opened 47 new stores in 2011. Italian newspapers say that due to purchases of Russian clients sales of the Italian outlets in contrast to the general crisis. The most important Italian financial newspaper Il Sole 24 Ore suggested making investments in the Russian ruble bacause Russia has a high economic growth and its national debt is very low. The tourism industry that made Italy famous also makes plans with a focus on the Russian customers. The examples are numerous and cover many sectors, while news of this kind are discussed widely in the Italian press. This shows that currently the Italian business world has confidence in the Russian market and is ready to invest in it. "So in only 10 years, Russia managed to change her image in Italy (in Europe and the world). Today it appears as a stable country, a country with an economic growth and with many investment opportunities. This change wasn't an easy one and required great efforts from the Russian government in 2000 when Russia was economically weak - in 2000 GDP was almost half of that of 1992. Today Russia's GDP is nearly 7 times bigger than that of 2000 and amounts to nearly 2 trillion dollars. According to IMF, this figure is expected to rise and in 2016 GDP will amount to 3 trillion. The increase of Russia's prestige in the eyes of the Europeans and the strong economic growth were possible thanks to political and economic stability of the country which was a merit of politicians who led Russia in recent years. The political destabilization of Russia would lead to distrust of the future of the Russian market and foreign capitals would flee from the country. So Russia should continue to move in the same direction of political stability if it wants to preserve and enhance the economic well-being and thus to remain an attractive country for foreign investment."

### Economy resilient- Russian GDP and investment outlook is strong.

Matt Ritchie, “Russia’s appeal to grow over next 18 months”, 7-18-2011, European Pensions, <http://www.europeanpensions.net/ep/russias-appeal-to-grow-over-next-18-months%20.php>

Russia is set to become an increasingly attractive market to investors over the next 18 months, according to Baring Asset Management. In a note published today, Barings said it expects to see solid GDP growth continue, despite Russia’s economic recovery having been slower to gain momentum than other emerging European nations. Russia’s parliamentary elections will take place this year, and the presidential election is to be held in 2012. Manager of the Baring Russia Fund Matthias Siller said the political backdrop over the next 18 months will have a positive influence on investment opportunities in the country. “The elections will naturally result in an increase in social spending on infrastructure and on housing as the government tries to secure support. Aggressive fiscal loosening will also put more money in people’s pockets and boost consumer confidence, supporting growth,” Siller said. GDP growth is expected to remain solid, and Barings believes the Russian economy has been relatively resilient to the financial crisis. Privatisation efforts are picked to increase and generate more growth for businesses, and wage growth and consumption are expected to be underpinned by a deficit spending increase in Russia. Siller said that while food inflation will slow real wage increases for the time being, Barings expect a re-acceleration of real wage growth in the second half of 2011 as inflation levels off. “This supports our positive outlook for Russian consumption over the rest of the year. “Russia remains attractively valued against its emerging European peers and we believe that this, along with demonstrable economic resilience, a positive outlook for increased consumption and solid finances, means Russia will become an increasingly attractive investment option for investors.

### Russia econ resilient- ranked in top 5 for future investments.

Reem Abdellateef, “Emerging markets most 'resilient' in economic crisis”, 2-9-2012, originally published in the Egypt Daily Times, <http://azzasedky.typepad.com/egypt/2012/02/emerging-markets-most-resilient-in-economic-crisis-says-agility.html>

The report also provides a ‘market size and growth attractiveness’ sub-index, which is calculated based on a country’s economic output, projected growth, population size and financial stability. "Unsurprisingly, China and India score top, with China obtaining the maximum possible score for this sub-index," said the report. "Indonesia, Brazil and Russia make up the remaining top five." Paraguay, Ecuador and Bolivia ranked poorly in this category, offering limited prospects for investors. The index report, which includes Transport Intelligence's (Ti) exclusive survey of 550, shows that Intra-Asian trade holds the most potential for growth in the near future.

## AT: Russia-China Impact

### Russia-China oil sales don’t spill over to military relations

BBC Monitoring International Reports, 9-9-2005 (Ekho Moskvy Radio, “Radio poll shows Russians prefer USA to China as ally,” Lexis)

 Kosachev insisted on a clearer definition of the concept of alliance: "I don't think any military-political or military-technical alliance between Russia and China exists yet. But the level of cooperation which already exists is purely bilateral and is unlikely to be aimed against anybody, either the USA, India, Europe or anybody else. China is one of the most dynamically developing states in the world." It is a huge importer of oil, Kosachev said, "so that means that it is snuffling around the world like a vacuum cleaner" in search of resources. "For such a dynamically-developing state, I reckon any means are good, and any alliance relations mean that it can to some extent resolve its own domestic problems. And the rapprochement with Russia is happening in the context of, or rather counting upon, access to our energy resources, first and foremost."

### Russian arms sales are good–they prevent fill-in and ensure that Russia can deal with a military threat from China

BBC MONITORING INTERNATIONAL REPORTS 9-9-2005, Ekho Moskvy Radio, “Radio poll shows Russians prefer USA to China as ally,” Lexis

Kosachev added that "even if Russia, in principle, were to stop supplying weapons to China, it would absolutely certainly find those weapons somewhere else, and then we would not know what sort of weapons they are, we would lose money, very obviously, the revenues from that cooperation, and the main thing is that we would never be sure that our defence systems were ready to deflect a potential bloc from a potential enemy. Now we are more or less sure of this because... military and technical cooperation in Russia is still under strict government control, fortunately, it is not determined by bureaucrats, and I am absolutely sure that the weapons that we currently supply to China really are of the previous generation compared to the weapons we supply to our own armed forces."

## AT: Saudi Arabia Impact

### Oil isn’t key—US democracy statements undermine relations now

Star News Service**,** 3-27-2011, “Arab spring’ drives wedge between US, Saudi Arabia,” http://midwestdemocracyproject.org/articles/arab-spring-drives-wedge-between-us-saudi-arabia/

The United States and Saudi Arabia - whose conflicted relationship has survived oil shocks, the Sept. 11, 2001, terrorist attacks and the U.S. invasion of Iraq - are drifting apart faster than at any time in recent history, according to diplomats, analysts and former U.S. officials. The breach, punctuated by a series of tense diplomatic incidents in the past two weeks, could have profound implications for the U.S. role in the Middle East, even as President Barack Obama juggles major Arab upheavals from Libya to Yemen. The Saudi monarchy, which itself has been loath to introduce democratic reforms, watched with deepening alarm as the White House backed Arab opposition movements and helped nudge from power former Egyptian President Hosni Mubarak, another longtime U.S. ally, according to U.S. and Arab officials. That alarm turned to horror when the Obama administration demanded that the Saudi-backed monarchy of Bahrain negotiate with protesters representing the country’s majority Shiite Muslim population. To Saudi Arabia’s Sunni rulers, Bahrain’s Shiites are a proxy for Shiite Iran, its historical adversary. “We’re not going to budge. We’re not going to accept a Shiite government in Bahrain,” said an Arab diplomat, who spoke frankly on condition he not be further identified. Saudi Arabia has registered its displeasure bluntly. Both Secretary of State Hillary Clinton and Defense Secretary Robert Gates were rebuffed when they sought to visit the kingdom this month. The official cover story was that aging King Abdullah was too ill to receive them. Ignoring U.S. pleas for restraint, a Saudi-led military force from the Gulf Cooperation Council, a grouping of six Arab Persian Gulf states, entered Bahrain on March 14, helping its rulers squelch pro-democracy protests, at least for now. A White House statement issued the day before enraged the Saudis and Bahrainis further, the diplomat and others with knowledge of the situation said. The statement urged “our GCC partners to show restraint and respect the rights of the people of Bahrain, and to act in a way that supports dialogue instead of undermining it.” In a March 20 speech in the United Arab Emirates, Saudi Prince Turki al-Faisal, a former ambassador to Washington, said the Gulf countries now must look after their own security - a role played exclusively by the United States since the 1979 fall of the Shah of Iran. “Why not seek to turn the GCC into a grouping like the European Union? Why not have one unified Gulf army? Why not have a nuclear deterrent with which to face Iran - should international efforts fail to prevent Iran from developing nuclear weapons - or Israeli nuclear capabilities?” al-Turki said, according to a translation of his remarks by the UAE’s state-controlled Emirates News Agency.

### Oil isn’t enough to guarantee strong relations

Rachel Bronson, 5-21-2006, author of "Thicker Than Oil: America's Uneasy Partnership with Saudi Arabia" (Oxford University Press and director of Middle East studies at the Council on Foreign Relations,“5 Myths About US-Saudi Relations,” Washington Post, http://www.washingtonpost.com/wp-dyn/content/article/2006/05/19/AR2006051901758.html)

There's more to it than that. Oil is, of course, critical to U.S.-Saudi ties -- it can hardly be otherwise for the world's largest consumer and largest producer. But Washington's relationship with Riyadh more closely resembles its friendly ties to oil-poor Middle Eastern states such as Jordan, Egypt and Israel than its traditionally hostile relations with oil-rich states such as Libya and Iran. Deep oil reserves have never translated into easy relations with the United States.

### Relations are resilient

Star News Service, 3-27-2011, “‘Arab spring’ drives wedge between US, Saudi Arabia,” http://midwestdemocracyproject.org/articles/arab-spring-drives-wedge-between-us-saudi-arabia/

Ignoring U.S. pleas for restraint, a Saudi-led military force from the Gulf Cooperation Council, a grouping of six Arab Persian Gulf states, entered Bahrain on March 14, helping its rulers squelch pro-democracy protests, at least for now. A White House statement issued the day before enraged the Saudis and Bahrainis further, the diplomat and others with knowledge of the situation said. The statement urged “our GCC partners to show restraint and respect the rights of the people of Bahrain, and to act in a way that supports dialogue instead of undermining it.” In a March 20 speech in the United Arab Emirates, Saudi Prince Turki al-Faisal, a former ambassador to Washington, said the Gulf countries now must look after their own security - a role played exclusively by the United States since the 1979 fall of the Shah of Iran. “Why not seek to turn the GCC into a grouping like the European Union? Why not have one unified Gulf army? Why not have a nuclear deterrent with which to face Iran - should international efforts fail to prevent Iran from developing nuclear weapons - or Israeli nuclear capabilities?” al-Turki said, according to a translation of his remarks by the UAE’s state-controlled Emirates News Agency. U.S. relations with the Saudis and other Gulf monarchies “are as bad as they were after the fall of the Shah,” said Gregory Gause, an expert on the region and political science professor at the University of Vermont. “The whole idea that Saudi Arabia still needs U.S. protection for anything … we’ve already moved beyond that,” the Arab diplomat said. He termed it “not necessarily a divorce, (but) a recalibration.” The Saudi embassy in Washington did not respond to requests for comment. Despite the falling out, experts say there are limits to the U.S.-Saudi disaffection, if only because both countries share a common interest in oil flows, confronting Iran and countering al-Qaida and other violent Islamic extremist groups. Past efforts by the GCC countries - Saudi Arabia, Bahrain, Kuwait, Qatar, the United Arab Emirates and Oman - to handle their own security have failed. In 1990, when Iraqi leader Saddam Hussein invaded Kuwait, the Saudis and Kuwaitis turned to the U.S. military to save them. “In the end I think geopolitics will push the U.S. and Saudi Arabia back together again,” Gause said. “Iran is still out there.”

### Saudi Arabia is stuck with us—no one else could fill in

Louisa Dris-Ait-Hamadouche and Yahia H. Zoubir , Assistant Professor at the Institute of Political Science at the University of Algiers; Professor of Intemational Relations at EUROMED MARSEILLE, Spring 2007 “THE US-SAUDI RELATIONSHIP AND THE IRAQ WAR: THE DIALECTICS OF A DEPENDENT ALLIANCE, “*Journal of Third World Studies,* Vol. XXIV, No. 1, ebscohost

Until now, Riyadh continues to require extensive security assistance in improving and professionalizing the kingdom's armed forces. The necessity for this assistance is vital, for the kingdom has no real alternatives to the United States for its security needs. Potentially, Westem Europe could be a candidate to flilfill this task, but several reasons make this hypothesis improbable. First, Europe does not enjoy any continuous military presence in the Gulf region and its force projection capabilities are inferior to those of the United States. Second, Europe is not engaged in a homogenous policy toward this region. On the contrary, Europe suffers from radical differences, the so-called "old" versus "young" Europe, in security matters and strategy. Third, Europe provides significant quantities of arms and materiel to Saudi Arabia and the GCC, and offers multiple investment opportunities in such way that trade between the GCC and Europe already outstrips that of the US with the GCC. Nevertheless, the political infiuence remains exclusively American. Neither Russia nor China can, or want to, play a role of substitution. As for foreign military cooperation, Europe is involved in the region through actions which have not upset US interests. For a long time, Saudi Arabia relied on Pakistan for some security matters, such as the stationing of Pakistani troops in the kingdom and the supply of Pakistani pilots to serve in the Saudi air force. But, security problems compelled Pakistan to rush back to intemal issues.