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## 1NC –

### Brent crude over $100 with an upward price pressure to sustain future increases

Manash Goswami, reporter, 7-20-2012, “Brent crude holds above $107; gains to eight-week highs spur selling”, 7/20/12, MSNBC, <http://www.msnbc.msn.com/id/48253785/ns/business-stocks_and_economy/#.UAlkxjFST-M>

SINGAPORE (Reuters) - Brent crude held above $107 on Friday, edging lower after a surge of 20 percent in four weeks prompted some selling as worries about conflict in the Middle East eased slightly. Oil rose to an eight-week high in the previous session, gaining for seven straight days as escalating tension in the Middle East and disruptions in output in the North Sea stoked supply fears. A strengthening of the dollar after a recent slide is also supporting crude futures. Brent crude slipped 49 cents to $107.31 a barrel by 1.43 a.m. EDT. The contract settled up $2.64 and touched an intraday top of $108.18, the highest since May 22. U.S. oil fell 76 cents to $91.90. The August contract ended up $2.79 and touched a high of $92.94, also the highest since May 22. "Prices were getting stretched a little, getting a bit ahead of themselves," said Mark Pervan, senior commodities strategist at ANZ Bank. "This rally is supply driven, and supply-driven rallies tend to be very volatile because when prices go up, they threaten to hurt demand." Brent is set to gain for a fourth straight week, its longest winning streak since the end of February, while U.S. oil is poised to gain for three of the past four weeks. The most important supply threat to oil for now is from the Middle East, as global powers try to force Iran to halt its disputed nuclear program. Tension escalated after a bus carrying Israeli tourists was bombed in Bulgaria, for which Israel blamed Iran. Israel's allegation, based on suspicions that Iranian and Hezbollah agents have been trying for years to score a lethal strike on its interests abroad, triggered speculation in local media that the government might now hit back hard. Israel however signaled that it would not rush into any conflict. The Middle East supply worries will limit any further slide in prices. Apart these tensions, expectations that the U.S. Federal Reserve would announce another round of stimulus to boost growth may weaken the dollar, boosting oil and other dollar-denominated commodities. "Middle East tensions now mean that supply concerns are entering the crude oil equation which is creating an upward price pressure," Tim Waterer, senior trader at CMC Market, said in a report.

### Modernizing transportation infrastructure would dramatically decrease US oil demand

John Podesta, President and CEO of the Center for American Progress, Carl Pope, Chairman of Sierra Club, Gene Carpinski, President of the League of Conservation Voters, March 2011, “Cleaner Cars, Less Foreign Oil,” http://www.americanprogress.org/issues/2011/03/pdf/oilsavingsagenda.pdf)

Millions of Americans are locked into using their cars because of limited transportation choices. Their communities lack affordable, convenient buses; subways; or other means of transit. Some communities lack safe biking and walking areas. Workers must spend hours in congested driving nightmares. People must drive a car to get a gallon of milk where housing is separated from services and amenities. Seniors face the loss of their freedom when they are no longer able to drive a car. Businesses are also constrained by limited choices, which have real economic costs. Shipping goods is more expensive because current railroad bottlenecks force them onto trucks, which increases oil dependence and pollution. More truck freight adds to highway congestion and road wear and tear. Too much of our freight moves on trucks because we have invested too little in our rail system. Infrastructure and planning improvements are necessary to provide genuine transportation alternatives for both passengers and freight. Fortunately, public transit is popular among those Americans who have reasonable access to it. Public transportation experienced a significant increase in use over the past 15 years. According to the American Public Transit Association: From 1995 through 2009, public transportation ridership increased by 31 percent—a growth rate higher than the 15 percent increase in U.S. population and higher than the 21 percent growth in the use of the nation’s highways over the same period. Buses, subways, streetcars, and other forms of transit dramatically reduce oil use. The American Public Transit Association determined that Riding public transportation is a significant way to cut passenger transportation energy use. … transit reduces annual fuel use by the equivalent of 4.2 billion gallons of gasoline. This is about 100 million barrels of oil saved annually. Outlays for new and improved transit networks can also help speed our economic recovery. There is $4 in economic return for every $1 of investment. Every $1 billion provided for transit creates 36,000 jobs. Fix roads, bridges, and trains, and unclog transportation bottlenecks While we must increase our investment in transportation infrastructure, we must avoid wasting it. Boondoggles and pork-barrel earmarks have added to our present congestion. We must not build highways we don’t need. We must ensure the ones we have are in good repair. New capacity should be added strategically to increase the overall flexibility of the transportation system rather than simply adding lanes and increasing gridlock. America’s ports, for example, represent major bottlenecks in getting feed stocks to factories and goods to consumers. Shipping freight by railroad is three times more oil efficient compared to using trucks. Yet our outdated rail system suffers from bottlenecks that make it less attractive for businesses. For instance, the News Hour found that “Chicago has been a freight rail hub for the past 150 years, but an outdated layout often makes it a bottleneck for the country’s shipping network.” And demand for rail shipment is projected to nearly double over the next 25 years. Yet the American Society of Civil Engineers projects a 20 percent shortfall in rail investment over this time. To address these problems, there should be a national transportation policy with a prominent oil-savings goal. Such a program would first invest in transportation programs that decrease dependence on oil. The president’s outline for transportation program provides a good starting point, including increasing our investment in transit by 128 percent over six years. In addition, Congress should create an “Infrastructure Bank” that would lend money for large-scale infrastructure projects, including funds for the repair and rehabilitation of highways, transit, and railroads. These funds would be paid back over time by tolls or local dedicated taxes. The federal government would spur investment in these modes by putting in the first dollars and attracting private partners. Every federal dollar loaned to a project will be matched by as many as six private dollars.

### Saudi Arabia needs more than $100 a barrel to sustain social spending

Michael Peel, AND Javier Blas, writers, “Saudi budget could require high oil price”, 3-31-2012, Financial Times, <http://www.ft.com/intl/cms/s/0/87d60044-5bbb-11e0-b8e7-00144feab49a.html#axzz20zLPp2yl>

Saudi Arabia could need the oil price to average more than $100 a barrel by 2015 to sustain the big public spending rises it plans in an effort to forestall the political unrest sweeping the Middle East. The oil market is growing increasingly worried about Riyadh’s fiscal needs as it fears that they could force Saudi Arabia to pursue oil policies similar to those of Venezuela and Iran, traditionally the price hawks at the Opec oil cartel. The break-even oil price the Gulf kingdom requires to balance its budget will jump from $68 last year to $88 this and then $110 in 2015, according to new estimates by the Institute of International Finance, a leading industry group. Only a decade ago Saudi Arabia was able to balance its budget with oil prices averaging $20-$25 a barrel. The forecast shows the scale of the task facing Saudi Arabia, the world’s largest oil producer and a crucial plank of the west’s regional security strategy, as it grapples with a growing population and increasing infrastructure problems. Crude oil prices on Thursday surged higher as Libyan rebels failed to make fresh ground against forces loyal to Muammer Gaddafi, suggesting a protracted oil supply disruption in the north African country. ICE May Brent rose to a session high of $117.70 a barrel, near a 2½-year high. It closed at $117.36 a barrel, up $2.23 on the day. Nymex May West Texas Intermediate closed at $106.72, a day’s rise of $2.45. The rise in oil prices caused by the unrest in the Middle East will help Saudi Arabia and other Opec nations to pay for the increased spending. The International Energy Agency, the western countries’ oil watchdog, believes Opec revenues will surpass $1,000bn this year for the first time. The forecasts of higher oil revenue needs come after the Saudi government announced two packages of social spending totalling $129bn aimed at averting the spread of dissent that toppled the Egyptian and Tunisian leaders. The largesse failed to satisfy activists who were angry that the package did not include reforms.

### Social spending key to buying loyalty and quelling social unrest

Knowledge Today, “To Stave Off Arab Spring Revolts, Saudi Arabia and Fellow Gulf Countries Spend $150 Billion”, 9-21-2012, UPenn <http://knowledgetoday.wharton.upenn.edu/2011/09/to-stave-off-arab-spring-revolts-saudi-arabia-and-fellow-gulf-countries-spend-150-billion/>

Saliba and his colleagues cautioned that the outsized spending did not address the long-term nature of the problems presented by the Arab Spring, such as high unemployment. “This [social spending] has averted potential disquiet over governance in most countries, though, over a longer-term horizon, economic reforms will be needed to buoy private sector growth and job creation.” Saudi Arabia’s generosity has been criticized as a means for the Arab world’s most populous country to make political gains and spread influence. The Merrill Lynch report also does not take into account the cost incurred by Saudi Arabia to send its troops into neighboring Bahrain to help quell a Shiite uprising there — another action to prevent revolt from reaching its own borders. But in a recent analysis of the Arab Spring for Arabic Knowledge@Wharton, Wharton legal studies and business ethics professor Stuart Diamond said the spending by the Saudis demonstrated their understanding of negotiation. “They understood that for many people, it was about Maslow’s [hierarchy of] needs triangle: that is, basic life necessities such as food, shelter and health mattered most. So the stipends that the Saudi government gave helped to quell disturbances,” he noted. Diamond added that Saudi spending bought not only continued loyalty from its citizens. “What they have mostly bought was time. For now, the populace will be satisfied with their recent bonuses. But that does not amount to structural and sustainable change, the kind that would significantly improve everyone’s quality of life on a continuing basis. The Saudi government should take this opportunity to include more people in decision-making and develop new industries that give more people a chance at a better life over the long term.”

### Failure to stop political unrest in Saudi Arabia will unleash nuclear weapon use and terrorism

Shashank Joshi, Doctoral student at Harvard University, and a Research Fellow of the Royal United Services Institute, 4-13-2012, *The Hindu* <http://www.thehindu.com/opinion/op-ed/article3308145.ece>

A sectarian, geopolitical and strategic cold war is unfolding between Saudi Arabia, protector of the Sunni Arab order, and Iran, a Shia Persian revolutionary power with a mission to subvert that status quo. The battlefields are Syria and Palestine, Afghanistan and Iraq. For India, the stakes are high.¶ Saudi-Iranian rivalry has ebbed and flowed for decades, but two developments — the acceleration of Iran's nuclear ambitions and the Arab Spring — have sharpened the antagonism. In the coming years, that will likely push Saudi Arabia closer to Pakistan and exacerbate threats to India.¶ THREE STRANDS¶ First, consider that the crisis over Iran's nuclear programme is unlikely to be resolved by this month's talks, given the inflexible positions held by each side. If Iran is attacked, it will respond by rushing for a bomb. If it isn't attacked, it will drift towards the threshold of weapons status (much like India in the 1970s). Either way, the Saudis will feel the need to hedge — and they will turn to Pakistan, whose nuclear programme they funded and fostered for years.¶ Both Pakistan and Saudi Arabia have reasons not to flout American concerns, and each would proceed with caution. But it is plausible that Pakistan might covertly transfer nuclear technology, engineers and even fissile material to its Saudi Arabian patrons — buying itself some diplomatic clout in return.¶ Second, Saudi Arabia remains shaken by the Arab Spring. The country's Shia-dominated Eastern Province is growing restive. Riyadh is also paranoid that Shia Iran is meddling there and in other Sunni Arab regimes like Bahrain.¶ That's why there are reportedly 10,000 serving and retired Pakistani military personnel in Bahrain — including a battalion of the Azad Kashmir Regiment. In the 1980s, Pakistan had tens of thousands of soldiers, sailors and airmen in Saudi Arabia — including an entire division and two armoured and two artillery brigades. These reliable Sunni forces are still seen in Riyadh as a crucial instrument of repression.Saudi Arabia is not immune from the unrest that swept the Arab world last year. If oil prices fall, it'd struggle to pay for the massive public spending programmes it introduced last year in an effort to stave off discontent. Its refusal to undertake real political reform, and the poisonous anti-Shia rhetoric it has ramped up to vilify protesters, could further radicalise young Saudis.¶ If this resulted in widespread disorder, the regime would depend on Pakistan to send manpower and military expertise.¶ In fact, it's highly likely that contingency plans are already in place.¶ Even if there's little chance of Pakistani nuclear weapons on Saudi soil, the prospect of Pakistani access to Saudi airbases and missile facilities should be cause for Indian concern.¶ Finally, there's a third strand to the Saudi-Pakistan nexus: religion. Whenever Saudi rulers have felt under threat they shore up their legitimacy by looking to the ulema. In 1979, the Iranian revolution and the siege of Mecca spooked the monarchy into giving more money and power to the clerics. That fuelled the growth of violent Sunni extremism over the subsequent decade — and in South Asia in particular. Last year, similarly anxious to bolster their Islamic credentials, the regime responded in the same fashion — funnelling a part of its $120 billion spending package to the religious establishment and reaching out to some of the most extreme strands of regional Islamist movements.¶ That will have profound and pernicious effects not just in the Middle East and North Africa, but also in the jihadist heartlands of Punjab and even within India. Sunni terrorist groups, including Pakistan-sponsored outfits like the Lashkar-e-Taiba, will have new resources and political allies. That throws up fiendishly difficult intelligence and counterterrorism challenges for Delhi.¶ Saudi Arabia's former intelligence chief once claimed that his country's relationship to Pakistan was “probably one of the closest relationships in the world between any two countries.” Whether or not that's hyperbole, it's going to get closer. Both are growing apart from the United States. Riyadh was alarmed over the way in which Washington dumped Egypt's Hosni Mubarak, and Islamabad is not blind to the growing exasperation with its policies.

### Nuclear terrorism causes nuclear war and extinction

The Guardian, 3-31-2008, Project Syndicate, “The Nuclear Risk,” http://www.guardian.co.uk/commentisfree/2008/mar/31/newnuclearrisk

Vital pillars of the old arms-control and anti-proliferation regime have either been destroyed - as was the case with the anti-ballistic missile (ABM) treaty - or substantially weakened, as with the nuclear non-proliferation treaty (NPT). Responsibility for this lies largely with the Bush administration, which, by terminating the ABM treaty, not only weakened the international control systems for nuclear weapons, but also sat on its hands when confronted with the NPT's imminent collapse. At the beginning of the 21st century, proliferation of military nuclear technology is one of the major threats to humanity, particularly if this technology falls into terrorists' hands. The use of nuclear weapons by terrorists would not only result in a major humanitarian tragedy, but also would most likely move the world beyond the threshold for actually waging a nuclear war. The consequences would be horrific.

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

## Prices Stable – OPEC

### OPEC says oil prices remain stable

Chris **Stanton**, Journalist, Dec 26, 20**09**, The National, http://www.thenational.ae/business/energy/steady-stable-oil-prices-make-everyone-happy

Oil prices remain on a stable glide path into next year, analysts say, after emerging this autumn from a chaotic 12-month period that saw both record highs and a brutal crash. Supported by a stable demand and supply outlook, crude oil has remained within a range of $65 to $80 a barrel since August 1. The range has been approved by OPEC, which decided on Tuesday, for the fourth time this year, to keep output levels unchanged.¶ Oil supply is stable, and demand is supported by Asia but held back by continued low consumption in the West, said Dalton Garis, an associate professor of economics and market behaviour at the Petroleum Institute in Abu Dhabi. Volatility in oil prices returned to "normal" after extreme swings last year and in the first half of this year, he said. "China is putting a floor on the price, but the fact that there isn't much demand from North America - and Europe is also slow - that sort of puts a lid on the demand as well," Dr Garis said. "The fundamentals really don't suggest there should be big swings in prices." He expects the stability to continue at least until April.¶ West Texas Intermediate crude was little changed on Thursday, the last day of trading before Christmas, falling 0.4 per cent to $76.35 a barrel. Markets were closed yesterday for Christmas, and trading volumes are normally very low in the week before New Year's Day. OPEC ministers said this week they were happy with current prices, and some agreed that $75 a barrel was good for both consumers and producers because it allowed OPEC to earn large revenues without hurting the world economy or pushing consumers to switch to other fuels.¶ "At between $70 and $80, everyone is happy," Ali al Naimi, the Saudi oil minister, told reporters in Angola. "The current price is good for consumers, producers and investors." Jose Botelho de Vasconcelos, the Angolan oil minister and president of OPEC, predicted that prices could hold through to the beginning of next year. "I think that for 2010 price levels will be identical to what we have today," he told Reuters.¶ John Hall, the chairman of EnergyQuote, a consultancy based in Britain, said: "With such support for the price band, OPEC will probably take action to support current levels."J The group's members want to avoid higher prices that would encourage faster development of renewables and new oilfields that would flood the market with more supply, Mr Hall said. "As prices exceed the $80 level, alternative energy sources start to become attractive again and so, too, do exploration projects both inside and outside the OPEC membership while, conversely, economic activity and recovery are restricted," he said. "Our view for now is that the oil price is unlikely to average out above $70 during 2010."¶

## Prices Stable – Saudi Arabia

### Prices stable – Saudi Arabian exports

Martin **Dokoupil**, Treasury Correspondent, Gulf, Jul 11, 20**12**, Reuters, http://www.reuters.com/article/2012/01/20/us-saudi-oil-bank-idUSTRE80J0TR20120120

Saudi Arabia's central bank chief said on Friday that his country would offer excess oil production capacity if needed to balance oil prices, and that he expected prices to stay stable.¶ Brent crude held above $111 on Friday, partly supported by the prospect of fresh sanctions being imposed on Iranian crude early next week, which could increase demand for oil from other markets.¶ "If there is pressure on demand, Saudi Arabia will always offer excess capacity to bring balance to supply and demand and to balance prices throughout," central bank head Fahad al-Mubarak said.¶ Mubarak was speaking to a news conference at the inaugural meeting of the Financial Stability Board's regional consultative group for the Middle East and North Africa. The FSB is a global body handling financial regulation.¶ Saudi Oil Minister Ali al-Naimi said on Monday the world's top oil exporter can pump more oil at a moment's notice, the day after Iran warned Gulf oil producers not to compensate for any disruption to Iranian output.¶ He identified $100 a barrel as an ideal oil price for Riyadh.¶ Mubarak reiterated that the balance sheets of Saudi commercial banks were very strong and that they had only very limited exposure to Europe. Saudi Arabia will continue to ensure its banks are well-regulated, he added.¶ "Saudi banks are complying with Basel II, as a matter of fact they are already complying in most of the bank ratios of liquidity and capital adequacy of Basel III. The system of banks in Saudi Arabia was a very strong one well before I became governor."¶ He added, "My role is to continue prudent macro measures to make sure the banks continue to be well-regulated and follow all required rules as well as serving their purpose in the economy.

## Prices Stable – generic

### Stable oil prices are here and good for the economy

Ian **Forsyth**, staff writer, Feb. 12-20**12**,” Encouraging signs in oil and gas portfolio,”

 Business oil, Lexis Nexis

 Despite the continued uncertainty and volatility in the global economy, the oil and gas industry has remained one of the most resilient sectors. For most of 2011, the oil price was stable and above $100 a barrel and consequently the industry as a whole was able to benefit from increased activity. This includes increased drilling programs, strong forward order books and recruitment drives, evidenced throughout the value chain. These strengths are in stark contrast to many other sectors across the UK.¶ I look back at 2011 as a relatively encouraging yet still subdued year in terms of M&A activity.¶ There were a few sizeable private-equity backed transactions.¶ These deals, together with increasingly strong private equity sponsor interest and sufficient bank funding appetite, are positive signs that the M&A market had the potential to return to growth.¶ Yet the level of M&A activity still fell short of the optimistic expectations that many held at the start of 2011.¶ So what does that mean for activity levels for the year ahead?¶ We saw a number of larger, generalist private equity houses make regular visits to Aberdeen in 2011 to build their relationships in the area with management, local advisers and banks, allowing them to stay close to the market and identify an attractive oil and gas asset to add to their portfolio. The increased level of interest in the market is a welcome and encouraging sign, illustrating that confidence in the oil and gas market is being recognised UK-wide, proving it an attractive market to invest in even in these tough times.¶ At RBS, we are continuing to see encouraging signs across the oil and gas portfolio.¶ In the main, our corporate clients are proving resilient during the downturn and we are also seeing the majority of our leveraged portfolio companies benefiting from strong balance sheets and surplus cash and performing in line with or ahead of budgets.¶ With this positive trend, it is easy to understand why there is again a growing level of interest in the sector from private equity which serves to increase competition in a market which has been predominantly led by corporate M&A activity in recent years.¶ Although the oil and gas industry will certainly not be immune to the ongoing economic volatility in 2012, its continued resilience and ability to adapt will stand it in good stead. Coupled with an increased appetite of companies for further growth into new markets, this points toward encouraging times for both corporate and private equity investment and increased M&A activity in 2012.¶

### Prices aren’t going anywhere

Dan **Burrows**, veteran of Aol's Daily Finance, Smart Money and Market Watch, January 25, 20**12**, CBS, http://www.cbsnews.com/8301-505123\_162-57365862/oil-prices-steady-despite-iran-tensions/

Weak demand for oil among big, developed world countries has kept the price of crude remarkably steady despite increasing tension with Iran, according to new research.¶ Benchmark Brent crude-oil futures have been essentially unchanged for more than six months, notes economist Ed Yardeni of Yardeni Research. Oil futures traded in New York have likewise been steady, stuck at around $100 a barrel even as the crisis mounts in the Middle East.¶ The surprising stability in oil prices comes amid the European Union's new ban on Iranian oil imports and the U.S. enacting tougher sanctions against the nation late last year. Furthermore, Iran has threatened to close the Strait of Hormuz, potentially disrupting global oil supplies. ¶ Gold prices driven by Asia, not inflation¶ Oil prices poised to hit 150-year high¶ "Despite Iran's saber rattling, the price of oil hasn't soared," Yardeni notes. "The price of a barrel of Brent has been hovering around $110 since last summer." ¶Indeed, if it weren't for Iran, the price of oil would probably be falling, Yardeni says. "Demand is especially weak among the Old World countries of the U.S., Western Europe and Japan -- where crude oil usage has slipped back down in recent months to the 2009 recession low," Yardeni writes. See the chart, courtesy of Yardeni Research, below:¶ (Credit: Yardeni Research) ¶ Demand is weakest in Western Europe, Yardeni says, as the continent struggles with its sovereign debt crisis and looks poised to fall into another recession. The region's oil demand recently hit its lowest since the end of 1994.

## Prices High – Over $100/Barrel

### Brent crude over $100 with an upward price pressure to sustain future increases

Manash Goswami, reporter, 7-20-2012, “Brent crude holds above $107; gains to eight-week highs spur selling”, 7/20/12, MSNBC, <http://www.msnbc.msn.com/id/48253785/ns/business-stocks_and_economy/#.UAlkxjFST-M>

SINGAPORE (Reuters) - Brent crude held above $107 on Friday, edging lower after a surge of 20 percent in four weeks prompted some selling as worries about conflict in the Middle East eased slightly. Oil rose to an eight-week high in the previous session, gaining for seven straight days as escalating tension in the Middle East and disruptions in output in the North Sea stoked supply fears. A strengthening of the dollar after a recent slide is also supporting crude futures. Brent crude slipped 49 cents to $107.31 a barrel by 1.43 a.m. EDT. The contract settled up $2.64 and touched an intraday top of $108.18, the highest since May 22. U.S. oil fell 76 cents to $91.90. The August contract ended up $2.79 and touched a high of $92.94, also the highest since May 22. "Prices were getting stretched a little, getting a bit ahead of themselves," said Mark Pervan, senior commodities strategist at ANZ Bank. "This rally is supply driven, and supply-driven rallies tend to be very volatile because when prices go up, they threaten to hurt demand." Brent is set to gain for a fourth straight week, its longest winning streak since the end of February, while U.S. oil is poised to gain for three of the past four weeks. The most important supply threat to oil for now is from the Middle East, as global powers try to force Iran to halt its disputed nuclear program. Tension escalated after a bus carrying Israeli tourists was bombed in Bulgaria, for which Israel blamed Iran. Israel's allegation, based on suspicions that Iranian and Hezbollah agents have been trying for years to score a lethal strike on its interests abroad, triggered speculation in local media that the government might now hit back hard. Israel however signaled that it would not rush into any conflict. The Middle East supply worries will limit any further slide in prices. Apart these tensions, expectations that the U.S. Federal Reserve would announce another round of stimulus to boost growth may weaken the dollar, boosting oil and other dollar-denominated commodities. "Middle East tensions now mean that supply concerns are entering the crude oil equation which is creating an upward price pressure," Tim Waterer, senior trader at CMC Market, said in a report

## Prices High

### Gas prices are continuing to rise and do not look like they will stop

Globes, 7-22-2012, Globes.com, “Gasoline price set to jump NIS 0.35 per liter”, **http://www.globes.co.il/serveen/globes/docview.asp?did=1000767672**

The price of 95 octane gasoline is set to jump by NIS 0.30-0.35 per liter at midnight on July 31, industry sources believe. The rise in the price of oil and the weakness of the shekel against the **d**ollar are behind the pending price jump. ¶ Self-service 95 octane gasoline currently costs NIS 7.27 per liter, and full-service 95 octane gasoline costs NIS 7.43 per liter; the price hike will boost the price of self-service 95 octane gasoline to NIS 7.57-7.62 per liter. ¶ The government controlled price of gasoline is based on the average quotes of CIF La Vera trade prices for fuels in the Mediterranean basin, which are then converted from dollars into shekels. The price is revised at the end of every month. The price of oil has risen 13% in July, and the shekel has weakened by 1.9% against the dollar.

### Increasing oil prices unquestionably show at the gas pump

Associated Press, 2012, WashingtonPost.com, “Oil prices higher on upbeat housing outlook, industrial production data”, http://www.washingtonpost.com/world/asia\_pacific/oil-price-climbs-for-4th-day-on-hopes-for-new-round-of-economic-stimulus-from-fed/2012/07/17/gJQAJo9BqW\_story.html

NEW YORK — A brighter outlook for U.S. homebuilders and rising industrial production pushed the price of oil higher Tuesday for the fifth straight day.¶ Benchmark U.S. crude added 79 cents to end the day at $89.22 per barrel in New York. Brent crude, which is used to set the price of oil imported into the U.S., rose by 63 cents to end at $104 per barrel in London.¶ A survey by the housing industry showed that confidence among homebuilder soared to a five-year high on the expectation that new home sales will rise this year. Home building is a key part of the economic recovery. Every time a new home is built, it creates three jobs for a year and generates about $90,000 in tax revenue, according to the National Association of Home Builders.¶ Meanwhile, U.S. industrial production rose in June. The Federal Reserve said factories made more cars, machines and business equipment. The manufacturing industry has struggled to maintain steady growth this year, but analysts said the news was enough to ease concerns about a slowing economy.¶ “The economy looks a little better today,” said Phil Flynn with Price Futures Group.¶ Oil prices were down earlier in the day after Fed Chairman Ben Bernanke gave lawmakers a dour outlook for the economy. Investors had hoped that Bernanke would discuss a new stimulus plan before the Senate Banking Committee. He didn’t. Instead, Bernanke warned that the country could be headed for another recession, if Congress doesn’t avert a looming budget crisis.¶ At the pump, gasoline prices rose by a penny to a national average of $3.406 per gallon, according to AAA, Wright Express and Oil Price Information Service. A gallon of regular has fallen by an average of 53 cents since peaking this year in April.¶ On this day in 2008, gasoline prices hit an all-time average high of $4.1144 per gallon. Some experts had predicted earlier this year that the national average would beat that this summer, but that’s now unlikely. Tom Kloza, OPIS chief oil analyst, expects gasoline prices to range between $3.30 and $3.50 per gallon from now until Labor Day.¶ In other futures trading, heating oil rose 1.45 cents to finish at $2.8422 per gallon, while wholesale gasoline lost a penny to end at $2.8450 per gallon. Natural gas fell by less than a penny to finish the day at $2.7960 per 1,000 cubic feet.

#### Gas prices jumped exponentially, it doesn’t look like they will decrease either

Hispanic Business, 7-24-2012, hispanicbusiness.com, “Gas Prices on the Rise Again”, http://www.hispanicbusiness.com/2012/7/24/gas\_prices\_on\_the\_rise\_again.htm

Retail gas prices have been jumping again after showing a temporary decline after mid-April. As of Thursday morning, the per-gallon price for regular unleaded gasoline averaged $3.491, compared to $3.449 a day earlier and $3.425 last week.¶ ¶ The national average price was about 6 cents lower Thursday. ¶ The local price was still a nickel-per gallon lower than it had been a month ago and 17 cents lower than the $3.666 of the same period in 2011.¶ ¶ National prices peaked for 2012 at $3.92 in the first week of April. ¶ The record price in Waterloo-Cedar Falls is $4.002 on May 8, 2011. ¶ There are several reasons for the newest spike, including the rising price of crude oil, said Gregg Laskoski, senior petroleum analyst with GasBuddy.com, which tracks fuel-price trends.¶ ¶ Laskoski noted crude oil was trading at around $90 per barrel Thursday, compared to $77 to $78 just a few weeks earlier.¶ ¶ "On June 29, crude oil saw the biggest single-day increase we'd seen in three years," Laskoski said, noting the price jumped about $7.30 a barrel that day.¶ ¶ "Ever since then, we've seen crude oil moving higher," he said. ¶ Several factors are in play, Laskoski said, listing a potential volatile situation in the Middle East first.¶ ¶ "Although it's not exclusively Iran, it's the nervousness about the conflict in Syria, the civil war that could escalate," he said.¶ ¶ U.S. refinery output in the Midwest, has been at 90.8 percent of capacity, compared to a national average output of 92 percent, Laskoski said.¶ ¶ The lone trouble spot in that category is the East Coast, which has current refinery output of about 82 percent. The Rocky Mountain region leads, at 97.5 percent.¶ ¶ In the short term, prices likely will continue to rise until around Labor Day, he said.¶ ¶ "I don't think we're going to see an extraordinary kind of spike like we saw in the springtime, though," he said.¶ ¶ Barring any unforeseen events, like a hurricane or a war breaking out, consumers likely will see some relief at the pump after Labor Day, when the retailers move away from federally mandated "summer blend" fuels to cheaper winter blends, Laskoski said.

### Oil Prices rising quickly

Seeking Alpha, 7-22-2012, seekingalpha.com, “Oil Prices Rise: Will This Rally Continue?”, http://seekingalpha.com/article/737701-oil-prices-rise-will-this-rally-continue

The prices of oil changed direction and after they had declined during the past couple of months, they started to pick up during July. During the month WTI oil price (August delivery) and by extension United States Oil (USO) rose 8.1% and 7.4% respectively. Let's examine the recent developments in the oil market that could explain the change in direction and perhaps what it next for oil prices.¶ Despite the recent rally in oil prices, it didn't seem to positively affect energy companies' stock such as Exxon Mobil Corporation (XOM). During July the price of the Exxon edged up by only 0.4%.¶ Stockpiles¶ U.S. oil stockpiles edged down by 0.8 million barrels to 1,073.3 million barrels; the current oil stockpiles are 4.9 million barrels below oil stockpiles of the parallel week in 2011. The storage levels are near last year's quota; keep in mind, the current price is nearly $11 below the price of the parallel week in 2011. This could mean if the oil market will continue to tighten, oil price could also keep rising. The linear correlation between the lagged by two weeks percent change in oil storage and WTI oil prices was -0.29. This means the decline in oil stockpiles coincides with the rise in oil rates. The chart below shows the movement of oil stockpiles and WTI oil weekly price between 2010 and 2012.¶ OECD inventories are on the rise: according the recent IEA monthly update, during May OECD oil inventories rose by 15.4 million bbl to 2,672 million bbl. On the other hand oil inventories are slightly below the 5-year average; this means that the oil market is loosening up in OECD countries;¶ Supply¶ In the U.S: during last week the U.S oil production declined by 0.4% compared to the previous week but was still higher than the production level in 2011. Imports also declined during last week by 1.4%; the refinery inputs also edged down compared to last week. This means the supply slightly contracted and could explain the little growth in the oil storage.¶

### Oil prices rise with increasing demand.

Chris Kahn, AP Energy Writer, 7-18-2012 “Oil price climbs above $90 on stronger US demand: Rise in US oil demand lifts prices above $90 a barrel for the first time since May” Associated Press http://finance.yahoo.com/news/oil-price-climbs-above-90-152245296.html

NEW YORK (AP) -- The price of oil on Wednesday briefly hit $90 per barrel for the first time since May after the government said U.S. oil demand is on the rise. The Energy Information Administration reported that average oil demand increased last week in the U.S. for the third week in a row. Oil demand had been down most of the year, when compared with 2011, as manufacturing activity slowed and drivers cut back on travel. "We keep talking about the slow economy, but the market is seeing some improved oil demand today," said Phil Flynn, an analyst at Price Futures Group. Benchmark U.S. crude rose by 65 cents to end the day at $89.87 per barrel in New York. It hit $90.04 per barrel earlier in the day, the highest since May 30. Brent crude, which sets the price for oil imported into the U.S., rose by $1.16 to end at $105.16 per barrel in London. EIA's weekly petroleum report also noted a surprise drop in gasoline supplies last week as refineries pulled back on production. Oil supplies also fell, though the drop was less than what analysts expected.

### Oil prices rising

Matthew Kanterman, Benzinga Staff Writer, 7-11-2012 “Oil Prices Rebound After Sharp Sell-Off” http://www.benzinga.com/news/12/07/2735122/oil-prices-rebound-after-sharp-sell-off

Oil prices rebounded Wednesday in early trading, following sharp losses in trading Tuesday. Oil prices, measured by the front month WTI future, fell 2.5 percent on Tuesday and Brent crude futures fell in tandem, as global growth fears and the resolution of a labor dispute between Statoil (NYSE: STO) and its Norwegian workers was resolved. Oil prices had risen in previous sessions on fears that Statoil, the world's eighth largest producer, would shut down all production at its offshore rigs. However, the two sides were able to resolve the labor dispute, focused on pension benefits, and thus avert a shutdown. Oil prices began to rally around 2:30 pm on Tuesday and have traded higher since. WTI futures traded as low as $83.65 per barrel before rallying. The price of the front month future for WTI traded as high as $85.45 in early New York trading Wednesday.

### Oil prices rising, US key to market.

Wall Street Journal, 6-21-2012, “Oil Prices Rebound -- Ivanhoe Energy and Independence Energy Shares Jump: The Paragon Report Provides Stock Research on Ivanhoe Energy and Independence Energy” http://www.marketwatch.com/story/oil-prices-rebound-ivanhoe-energy-and-independence-energy-shares-jump-2012-06-21

Oil prices Tuesday rebounded on hopes of stimulus measures from the Federal Reserve and on a rising Euro. Oil investors have been worried about how a potential recession in Europe would affect global oil demand, Europe currently accounts for approximately 20 percent of the world's oil consumption. Any action by the Federal Reserve will provide a boost for oil prices, which on February 24 was at a yearly high of $109.77. The Paragon Report examines investing opportunities in the Independent Oil & Gas Industry and provides equity research on Ivanhoe Energy Inc. IVAN -1.91% CA:IE 0.00% and Independence Energy Corp. Investors are watching closely for any signs of stimulus from the Federal Reserve as the U.S. central bank began a two-day meeting Tuesday. "A few market participants are still waiting and hoping for the U.S. Fed to trigger a new round of something that can boost global markets," said Olivier Jakob, a Petromatrix energy analyst.

### Oil prices rise with US demand.

Thomas Galatola, staff writer for Bloomberg BusinessWeek, 7-17-2012 “Oil Rises to Seven-Week High on Inventory: Commodities at Close” http://www.businessweek.com/news/2012-07-17/oil-rises-to-seven-week-high-on-inventory-commodities-at-close

Crude oil rose to a seven-week high on speculation that petroleum inventories fell. A report showed U.S. industrial production increased in June, signaling higher energy demand. Supplies probably dropped 1.3 million barrels last week, a Bloomberg survey of analysts showed. Industrial output rose 0.4 percent. On the New York Mercantile Exchange, oil futures for August delivery climbed 0.9 percent to $89.22 a barrel, the highest settlement since May 29. Brent oil for September settlement advanced 0.6 percent to $104 a barrel on the London-based ICE Futures Europe exchange.

# \*\*\*Links\*\*\*

## 2NC Overview

### Even small changes in the oil market have large price effects

Neelesh Nerurkar, specialist in energy policy, “U.S. Oil Imports: Context and Considerations” 4-1-2011, CRS, <http://www.fas.org/sgp/crs/misc/R41765.pdf>

Domestic supply disruptions can also shift trade flows. After hurricanes Katrina and Rita shut in oil production in the U.S. Gulf of Mexico, U.S. imports increased by around 0.7 Mb/d between July and October 2005. The increase was in refined products; hurricanes shut down more refining capacity than crude oil production. Crude imports fell. Supply disruption in countries that are not traditionally major sources of U.S. imports may still have significant implications for the United States because they raise the price of oil worldwide. The oil market is globally integrated, refiners can shift the crude they use, and refined products are interchangeable commodities; so a disruption anywhere can affect oil prices everywhere. For instance, the United States imported only around 0.1 Mb/d of oil from Libya in 2010. (For context, the U.S. consumed about 19.2 Mb/d in 2010.) Most of Libya’s crude supply went to Europe. But when unrest shut down Libya’s exports in February 2011, global prices rose, including prices for oil imported into the United States from elsewhere and oil produced domestically. Global supply was reduced and European refiners had to look to other oil sources, bidding up those oil prices to secure substitute supplies. 10 The price of oil may rise until it makes up for the amount of supply no longer available due to the disruption. This can occur by price rising enough that some consumers no longer demand oil and/or suppliers bring additional production to market. 11 Many oil producers and consumers are inelastic to price changes when considering how much to supply or consume, especially in the short run, so seemingly small disruptions can lead to more significant percent changes in the price of oil. Even anticipation of disruptions can contribute to higher oil prices. Buyers and sellers of oil make risk-weighted decisions now about future commercial and financial needs. Anticipated disruption risks affect the price at which they are willing to buy and sell oil. Arguably, a significant portion of the increase in oil prices from unrest in Libya, Egypt, Bahrain, and elsewhere is attributable to concerns that unrest could spread to other oil exporters in the Middle East and North Africa. For more on this, see CRS Report R41683, Middle East and North Africa Unrest: Implications for Oil and Natural Gas Markets, by Michael Ratner and Neelesh Nerurkar. Disruptions to oil production reduced supply, slowed supply growth in recent years, and created concerns about future supply. This combined with rising oil demand, resulting from rapid economic growth in several countries, as well as other financial, geologic, commercial, and political factors, contributed to the rise in oil prices during the 2000s. Some selected events that played a role in recent price developments are presented in Figure 4

## Link – Generic

### Modernizing transportation infrastructure would dramatically decrease US oil demand

John Podesta, President and CEO of the Center for American Progress, Carl Pope, Chairman of Sierra Club, Gene Carpinski, President of the League of Conservation Voters, March 2011, “Cleaner Cars, Less Foreign Oil,” http://www.americanprogress.org/issues/2011/03/pdf/oilsavingsagenda.pdf)

Millions of Americans are locked into using their cars because of limited transportation choices. Their communities lack affordable, convenient buses; subways; or other means of transit. Some communities lack safe biking and walking areas. Workers must spend hours in congested driving nightmares. People must drive a car to get a gallon of milk where housing is separated from services and amenities. Seniors face the loss of their freedom when they are no longer able to drive a car. Businesses are also constrained by limited choices, which have real economic costs. Shipping goods is more expensive because current railroad bottlenecks force them onto trucks, which increases oil dependence and pollution. More truck freight adds to highway congestion and road wear and tear. Too much of our freight moves on trucks because we have invested too little in our rail system. Infrastructure and planning improvements are necessary to provide genuine transportation alternatives for both passengers and freight. Fortunately, public transit is popular among those Americans who have reasonable access to it. Public transportation experienced a significant increase in use over the past 15 years. According to the American Public Transit Association: From 1995 through 2009, public transportation ridership increased by 31 percent—a growth rate higher than the 15 percent increase in U.S. population and higher than the 21 percent growth in the use of the nation’s highways over the same period. Buses, subways, streetcars, and other forms of transit dramatically reduce oil use. The American Public Transit Association determined that Riding public transportation is a significant way to cut passenger transportation energy use. … transit reduces annual fuel use by the equivalent of 4.2 billion gallons of gasoline. This is about 100 million barrels of oil saved annually. Outlays for new and improved transit networks can also help speed our economic recovery. There is $4 in economic return for every $1 of investment. Every $1 billion provided for transit creates 36,000 jobs. Fix roads, bridges, and trains, and unclog transportation bottlenecks While we must increase our investment in transportation infrastructure, we must avoid wasting it. Boondoggles and pork-barrel earmarks have added to our present congestion. We must not build highways we don’t need. We must ensure the ones we have are in good repair. New capacity should be added strategically to increase the overall flexibility of the transportation system rather than simply adding lanes and increasing gridlock. America’s ports, for example, represent major bottlenecks in getting feed stocks to factories and goods to consumers. Shipping freight by railroad is three times more oil efficient compared to using trucks. Yet our outdated rail system suffers from bottlenecks that make it less attractive for businesses. For instance, the News Hour found that “Chicago has been a freight rail hub for the past 150 years, but an outdated layout often makes it a bottleneck for the country’s shipping network.” And demand for rail shipment is projected to nearly double over the next 25 years. Yet the American Society of Civil Engineers projects a 20 percent shortfall in rail investment over this time. To address these problems, there should be a national transportation policy with a prominent oil-savings goal. Such a program would first invest in transportation programs that decrease dependence on oil. The president’s outline for transportation program provides a good starting point, including increasing our investment in transit by 128 percent over six years. In addition, Congress should create an “Infrastructure Bank” that would lend money for large-scale infrastructure projects, including funds for the repair and rehabilitation of highways, transit, and railroads. These funds would be paid back over time by tolls or local dedicated taxes. The federal government would spur investment in these modes by putting in the first dollars and attracting private partners. Every federal dollar loaned to a project will be matched by as many as six private dollars.

### More efficient transportation would reduce US oil dependency

Department of the Treasury with the Council of Economic Advisors, March 23, 2012 “A NEW ECONOMIC ANALYSIS OF INFRASTRUCTURE INVESTMENT,” http://www.treasury.gov/resource-center/economic-policy/Documents/20120323InfrastructureReport.pdf)

A more efficient transportation infrastructure system will reduce our dependence on oil, saving families time and money. Traffic congestion on our roads results in 1.9 billion gallons of gas wasted per year, and costs drivers over $100 billion in wasted fuel and lost time. More efficient air traffic control systems would save three billion gallons of jet fuel a year, translating into lower costs for consumers. Finally, new research indicates that Americans who were able to live in “location efficient” housing were able to save $200 per month in lower costs, including paying less at the pump, over the past decade.

## Link – Highways

### Highway infrastructure expansion minimizes oil dependence

Mortimer L. Downey, Senior Advisor @ Parsons Brinckerhoff, a construction management organization, “Do we need more highways?: A view from the front line” National Journal, 5-3-2011, <http://transportation.nationaljournal.com/2011/05/do-we-need-more-highways.php>

Yes we need highways (although probably not so many new ones) and yes we need to maintain the system we have. If we are going to move the needle on energy consumption and foreign oil dependence, yes we need more well maintained and affordable transit--we can't ask people to ride services that arent there. And yes we need more bike and pedestrian facilities if we want to contribute to the livability of our cities. What's really important about the Conference of Mayors survey of their membership is that it represents views from the front lines of transportation policy and program delivery. These are the men and women, big city, small city and suburban communties who are closest to the voters and have broad responsiblities to achieve results. The recent discussions about transportation policy have emphasized the concepts of performance based and accountable delivery systems. These folks are the ones who really understand that and we should listen to them.

### Ending congestion would have a huge effect on oil imports

The Brookings Institute, 2008, “A Bridge to Somewhere,” Blueprint for American Prosperity, [http://www.brookings.edu/~/media/research/files/reports/2008/6/transportation%20puentes/06\_transportation\_puentes\_report.pdf)//mat](http://www.brookings.edu/~/media/research/files/reports/2008/6/transportation%20puentes/06_transportation_puentes_report.pdf%29/mat)

At its most basic, transportation is critically important to the U.S. economy for its ability to move people across and between metropolitan areas. Unfortunately, even this function is under threat due to ever present traffic congestion, lack of travel choices in most places, and unconnected modes. The increase in traffic congestion has brought severe costs to families and the economy as a whole In recent years, U.S. metropolitan residents have come to regard traffic congestion as one of the most serious problems in the nation. The reasons for this are, for the most part, obvious. Congestion imposes physical and psychological costs and it hinders access to jobs, recreation, and time with family members. At the same time, metropolitan civic and business leaders are leading the drumbeat concerning the economic effects of growing congestion, mainly due to lost time and productivity. The most prominent attempt at measuring congestion comes semi-annually from the Texas Transportation Institute (TTI). Among other indicators, TTI has developed a travel time index as a ratio of congested to uncongested travel. In 1982 the average ratio was 1.09 in metropolitan America. In other words, traffic added 9 percent to the average trip. By 2005, that number had risen to 1.26— essentially a tripling of the amount of congested travel in just over twenty years. Looking at another measure, the annual delay per rush hour traveler has grown to 38 hours from just 14 in 1982. This is especially a problem for travelers in the nation’s very large metropolitan areas which now average 54 hours of annual congestion per person. 16 The effects of congestion are just as pronounced. The average American in metropolitan areas wastes 26 gallons of fuel each year due to congestion. This may not seem like much, but aggregated it means nearly 2.9 billion gallons each year is wasted–nearly one-fifth of the total equivalent of oil imported from the Persian Gulf last year. 17 Factoring in this wasted fuel, metropolitan congestion is now costing Americans about $78.2 billion each year, an increase of $20 billion since just 2000. 18

### More highways would solving congestion and 92 million barrels of oil a year

Michele Fuetsch, 1-31-2011, “Congestion Cost Trucking $33 Bln. In ’09 on Wasted Time and Fuel, Study Finds,” Transport Topics, proquest

Trucks account for only 7% of the miles traveled in the nation's urban areas but they shoulder 29% of the costs that urban traffic congestion produces annually in wasted time and fuel, according to the annual Urban Mobility Report from the Texas Transportation Institute of Texas A&M University. Overall, the cost of traffic congestion in urban areas has gone from $24 billion in 1982 to $115 billion in 2009 and trucking's share of that latest figure is $33 billion, not counting the goods being hauled, the [an. 20 report said. Delay times for trucks traveling in the nation's 15 largest metropolitan areas, the report said, are worst in Chicago, followed by the Los Angeles-Long Beach-Santa Ana, Calif, area and metropolitan New York, New Jersey and Connecticut. The metro area that converges around Philadelphia, southern New Jersey, Delaware and Maryland ranked fourth in delay time with the fifth place going to the Dallas-Fort Worth-Arlington, Texas area. When the delay time includes both cars and trucks, the mobility report said, Chicago and the Washington, D. C, metro area tie for first place. Unlike the cost of congestion for cars, however, the cost of truck congestion "was passed on to consumers in the form of higher prices," the report said. In addition, it said, the fallout from truck congestion extends "far beyond the region where the congestion occurs" because trucks carry goods to suppliers, markets, and manufacturers. Delays in arrival time for manufacturing plants can cause whole production lines to close down, nie congestion analysis said. "The report confirms that congestion has a significant impact on the cost of moving freight, which is ultimately borne by Americans in the form of higher shelf prices, lower incomes and lost jobs," said Darrin Roth, director of highway operations for American Trucking Associations. It is past time. Roth said, for the country to make the investments in highway infrastructure that would reduce congestion and, over the long run, pay for themselves. The same solutions that would alleviate truck congestion, the report said, would also bring overall congestion relief. The solutions include new roads and rail lines, and new lanes on existing roads, lanes dedicated to trucks, and additional lanes and docking facilities at warehouses and distribution centers, the report said. The recession reduced congestion in 2008 and 2009 because the economic contraction meant fewer cars and trucks were on the road, the report said. However, as economic recovery accelerates, congestion will begin its steady rise again. Overall congestion in 2009 in urban areas wasted more than 3.9 billion gallons of fuel, which is equal to 130 days of oil flow in the Alaska Pipeline, the report said.

### Congestion consumes 45 million barrels

Department of the Treasury**,** “A New Economic Analysis of Infrastructure Investment,” 3-23-2012, [http://www.treasury.gov/resource-center/economic-policy/Documents/20120323InfrastructureReport.pdf)//mat](http://www.treasury.gov/resource-center/economic-policy/Documents/20120323InfrastructureReport.pdf%29/mat) NOTE: 1 barrel is 42 gallon 2800000000/42=66666666

Investing in transportation infrastructure creates middle-class jobs. Our analysis suggests that 61 percent of the jobs directly created by investing in infrastructure would be in the construction sector, 12 percent would be in the manufacturing sector, and 7 percent would be in the retail and wholesale trade sectors, for a total of 80 percent in these three sectors. Nearly 90 percent of the jobs in these three sectors most affected by infrastructure spending are middle-class jobs, defined as those paying between the 25 th and 75 th percentile of the national distribution of wages. The President’s proposal emphasizes transportation choices, including mass transit and high-speed rail, to deliver the greatest long-term benefits to those who need it most: middle-class families. The average American family spends more than $7,600 a year on transportation, which is more than they spend on food and more than twice what they spend on out-of-pocket health care costs. For 90 percent of Americans, transportation costs absorb one out of every seven dollars of income. This burden is due in large part to the lack of alternatives to expensive and often congested automobile travel. Multi-modal transportation investments are critical to making sure that American families can travel without wasting time and money stuck in traffic. A more efficient transportation infrastructure system will reduce our dependence on oil, saving families time and money. Traffic congestion on our roads results in 1.9 billion gallons of gas wasted per year, and costs drivers over $100 billion in wasted fuel and lost time. More efficient air traffic control systems would save three billion gallons of jet fuel a year, translating into lower costs for consumers. Finally, new research indicates that Americans who were able to live in “location efficient” housing were able to save $200 per month in lower costs, including paying less at the pump, over the past decade

### Improving traffic flow reduces consumption by 10 million barrels

Anne Korin and Deron Lovaas, director of the Institute for the Analysis of Global Security, “Taking the Wheel: Achieving a Competitive Transportation Sector Through Mobility Choice,” Mobility Choice, 11-23-2010, http://www.mobilitychoice.org/takingthewheel.pdf) //mat

H. Deploy Smart Traffic Management Intelligent transportation system (ITS) technologies are a win-win strategy: they provide a cost-effective way to simultaneously improve the operational efficiency of our nation’s transportation system while reducing the fuel lost to congestion and idling. These technologies save time, money, and frustration for travelers. A wide range of technologies and operational improvements can be implemented: n Freeway management: Roadway capacity and flow can be dynamically managed with real-time information on traffic conditions, collected by sensors and cameras. Ramp meters can be installed to regulate the flow of vehicles entering a highway to the optimal level at any given time, speed limits can be adjusted in real time to respond to changing conditions, and shoulders can be converted to travel lanes at peak hours or during congestion. Traffic management centers can coordinate ITS technologies across multiple roadways to best reduce congestion area wide. n Traveler information: Up-to-date information on traffic conditions provided to travelers can enable them to choose the best route and avoid congestion. Variable message signs, 511 systems, and traveler information call centers can all be deployed. n Incident management: A variety of techniques can be used to more quickly identify and clear incidents (accidents and other obstructions) that cause traffic jams, including free cellular call systems for reporting incidents, closed-circuit cameras, service patrols, and travel management centers to coordinate response. n Arterial management: Improved signal synchronization and variable message signs can be used to improve traffic flow on arterial roadways. This can also be combined with priority access through intersections for transit. n Road weather management: Inclement weather can badly snarl roadways. Implementing coordinated weather advisories, speed limit reductions, and snow and ice treatments promote safe and smooth travel operations in bad weather. Vehicle Infrastructure Integration (VII) or IntelliDrive SM: Not yet widely deployed, these systems would equip vehicles with technology that would communicate with roadside sensors and other vehicles to help drivers avoid accidents and make efficient use of roadway capacity. n Truck idling reduction: Idling wastes both fuel and money for trucking companies and operators. Overnight idling at truck stops can be reduced through truck stop electrification, which provides heating and cooling for the driver in the sleeper cab, or by installing auxiliary power units on trucks that allow drivers to shut off the main engine. Weigh-in-motion (WIM) systems and electronic credentialing allow trucks to bypass weigh stations and safety inspections, eliminating the idling associated with these stations. By improving traffic flow on arterials and freeways and increasing overall system efficiency—especially in the nation’s most congested urban areas—these technologies taken together could save almost 5 million barrels of oil per year in 2020 and almost 10 million barrels in 2030.

### Highway efficiency reduces oil spending and dependency - traffic jams

Lisa Margonilla won an Excellence in Journalism award from the Northern California Society of Professional Journalists in 2003. In 1999-2000, she was awarded a Sundance Fellowship. She is a graduate of Yale University. 6-5-10 “Director, Energy Policy Initiative; Senior Research Fellow, New America in California” http://energy.newamerica.net/publications/policy/strong\_america\_2020

STRONG (Secure Transportation Reducing Oil Needs Gradually) is a menu of policies to reduce US oil demand by more than 3 million barrels a day by 2020, without using new technology, vehicles, or fuels. STRONG America will result in large savings in oil, money, pollution, and carbon emissions by 2020, while reducing petroleum-intensive hassles like traffic jams. By 2020 STRONG’s gas savings alone could steer at least $347 million dollars a day to sectors other than oil in the US economy (if gas were $2.75/gallon). Importantly, STRONG gives Americans the power to decide how they commute, as well as what they drive by providing guaranteed loans for very efficient vehicles.

### Public transportation and highway HOT lanes get rid of traffic jams and lower oil consumption.

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This package of systemic transit policy upgrades recommended by the non-partisan Mobility Choice Coalition realigns a mixture of federal, state, and local policies to incentivize commuter choices while reducing oil consumption and quelling nuisances such as traffic jams. The package includes five measures to remove the perverse incentives that encourage gasoline use in current policies: Allocating transit dollars to optimize oil savings, smart traffic management, HOT lanes and congestion pricing, insurance choice rather than “one-size-fits-all,” and liberalizing local land development rules. It also includes measures to expand the transit options for everyone, including: increasing vanpool, car pool, and private commute options, expanding inter-city rail when cost-effective, and providing transit vouchers to low income households.

## Link - Airways

### Changes in Air Traffic reduce oil dependency

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Secure Trucking and Flying Volatile fuel prices have a huge impact on truckers and airlines, which struggle to remain profitable. The overwhelming dependence of both industries on petroleum means that America’s ability to move goods and people—and much of our economy—is vulnerable to high prices. However, two relatively simple policies could significantly reduce that dependence. Changing the way we route and schedule air traffic could save the aviation industry between 38 and 100 million barrels of fuel a year, according to a recent DOT report. Furthermore, providing truckers with loans to make their truck engines more efficient and truck bodies more aerodynamic could reduce oil demand by 214-314 million barrels of fuel a year

## Link – Alternative Energy

### Hybrid cars and loans to alternative energy reduces oil dependency

Lisa Margonilla won an Excellence in Journalism award from the Northern California Society of Professional Journalists in 2003. In 1999-2000, she was awarded a Sundance Fellowship. She is a graduate of Yale University. 6-5-10 “Director, Energy Policy Initiative; Senior Research Fellow, New America in California” <http://energy.newamerica.net/publications/policy/strong_america_2020>

This program could speed the turnover of the US fleet, ease the burden of higher gas prices on working families, and provide a funding mechanism to create eventual markets for super efficient hybrid and electric vehicles or other alternatives. Depending on the requirements for junked and purchased cars, the program could save 162 million barrels a year on fifth year, and the standards could be revised upward annually.

## Link – High Speed Rail

### High speed rail would devastate US oil demand

US High Speed Rail Association (USHSR), Energy Security information, most recently updated 2012, “Rail - The Solution to Rising Gas Prices,” http://www.ushsr.com/benefits/energysecurity.html

A national high speed rail system ends our oil dependency quickly & permanently Building an electrically-powered national high speed rail network across America is the single most powerful thing we can do to get the nation off oil and into a secure, sustainable form of mobility. A national network of high speed trains can be powered by a combination of renewable energy sources including wind, solar, geothermal, and ocean/tidal energy. America's dependency on oil is the most severe in the world, and inevitably pulls us into costly resource wars. It also pushes us into exploring for oil in extreme locations such as 10,000 feet deep below the Gulf of Mexico. We use 25% of the entire world's oil supply, yet we only have 5% of the world's population. We use 8-10 times more oil per person per day than Europeans, and they have faster, easier and better mobility than we do. The extremely high daily oil consumption of Americans is not due to a higher standard of living, but because of the extremely inefficient nature of our national transportation system – based on individual vehicles powered by internal combustion engines, combined with our sprawling community designs that force people into cars for every trip.

### Passenger rail substantially reduces US dependence on oil

Tony Dutzik and Siena Kaplan, Frontier Group, a think tank, producing ideas and research to promote a cleaner environment and a fairer and more democratic society, and Phineas Baxandall, Ph.D., U.S. PIRG Education Fund, 2010 “The Right Track Building a 21 st Century High-Speed Rail System for America,” http://www.frontiergroup.org/sites/default/files/reports/The-Right-Track-vUS.pdf

Cars and airplanes are almost exclusively powered by oil—increasing America’s dependence on a limited supply of fossil fuel largely controlled by other nations. Spikes in oil prices in recent years have had dramatic effects on Americans’ willingness to drive or fly to their destinations. Expanding and improving passenger rail service can reduce the nation’s dependence on oil and insulate travelers from the impact of fuel price spikes. America’s existing intercity passenger rail network already contributes to reducing America’s oil dependence, removing an estimated 8 million cars from the road and eliminating the need for 50,000 passenger airplane trips each year. 12 Intercity passenger rail—even when powered by diesel fuel—is more fuel-efficient than car or air travel, particularly for trips in the 100 to 500-mile range. On average, an Amtrak passenger uses 23 per cent less energy per mile than an airplane passenger, 40 percent less than a car passenger, and 57 percent less than a passenger in an SUV or pickup truck. 13 These numbers underestimate rail’s oil savings compared with airplanes. In terms of travel time, rail is most competitive against oil-intensive short airplane flights with trip distances of 500 miles or less—a traveler is much more likely to choose rail over air travel from Chicago to Minneapolis than from Chicago to Miami. Short flights use more fuel per mile than longer flights, since a plane uses much of its fuel in takeoff. A modernized passenger rail network in the future will also likely use less oil than American passenger rail service does today. As a high-speed rail network is developed in the United States, it will rely more on electricity and less on diesel fuel. Currently, about 40 percent of American intercity passenger rail is powered by electricity, while 80 percent of European rail service is electric. 14 As train service becomes faster, more reliable and more frequent it will also likely draw more passengers, further lowering per-passenger fuel usage. The more seats on a train that are filled, the less fuel that is used per passenger. Amtrak trains are typically about 50 percent full, compared with 70 percent for European high-speed trains. 15 As rail travel in America improves and draws more passengers, it is likely that trains will be carrying larger loads of travelers, raising the fuel efficiency of a trip on a train. Finally, the location of passenger rail hubs in downtown areas can encourage and support land-use patterns that reduce the need to drive, further curbing oil use. Placing a passenger rail station in a downtown area provides an inducement for businesses to locate nearby—just as airports spur development of office parks for businesses seeking close proximity to transportation and the construction of hotels and other traveler services. Unlike airports, however, passenger rail hubs would likely be located in existing downtown areas, where workers would be more likely to get to work via transit or other transportation alternatives.

### High speed rail decreases US oil dependence and consumption

Paul Langan, founder of High Speed Rail Canada, Issue 31 of Corporate Knights journal, 2010 “Getting on track,” http://www.corporateknights.com/article/getting-track)

HSR is a big part of reducing our impact on the planet. Lower greenhouse gas emissions, less oil dependence, and less energy consumption can all be achieved through switching to greater train use. The 1995 Federal/Ontario/Quebec study states, “By the year 2025, annual emissions of carbon dioxide and carbon monoxide related to inter-city travel within the [Windsor-Quebec City] corridor would drop by 24 per cent and 11 per cent [respectively] with the introduction of 300kph technology.” The 2006 High-Speed Rail and Greenhouse Gas Emissions Study by the U.S. Center for Clean Air Policy and the Center for Neighborhood Technology calculated that passengers would—assuming all proposed U.S. HSR lines were built—take 112 million HSR trips in the U.S. in 2025. This would result in 29 million fewer automobile trips and nearly 500,000 fewer flights. The U.S.’s total emissions savings: over 2,700 tonnes of CO2 per year. Switching from air and auto travel will also reduce our dependence on oil. The California High-Speed Rail Authority estimates its planned line will save 12.7 million barrels of oil per year by 2030, even with future improvements in auto fuel efficiency. This is in part because high-speed trains need one-third the energy of an airplane and one-fifth the energy of an automobile trip to carry a passenger one kilometre.

### HSR reduces oil dependency

Michael A. Levi, Senior Fellow for Energy and the Environment, Council on Foreign Relations 6-11-10

“Reducing U.S. Oil Consumption” <http://www.cfr.org/energyenvironment/reducing-us-oil-consumption/p22413>

Anthony Perl, director for the Urban Studies Program at Canada's Simon Frasier University says more high-speed rail would help reduce consumption, but the pace at which it could be introduced would hinge on government's "capacity to plan and execute the needed infrastructure." Daniel J. Weiss, senior fellow and director of climate strategy for the Center for American Progress, encourages aggressive oil reform by Congress and the White House, including more safeguards for oil and gas production, increased vehicle efficiency, higher revenues for clean fuel, and accountability for oil companies.

### High speed rail depletes fossil fuel and oil dependence

Center for American Progress, “It's Easy Being Green: Rail Transport Picks Up Speed” Center for American Progress, March 24th 2010, <http://www.americanprogress.org/issues/2010/03/ebg_032310.html>

The United States uses 25 percent of the entire world’s oil supply despite having only 5 percent of the world’s population, and sprawling communities force people to drive even short distances. We need alternate modes of transportation to kick this oil dependence, and one alternative is high-speed rail, which offers tantalizing environmental and economic benefits. President Barack Obama, Vice President Joseph Biden, and Transportation Secretary Ray LaHood announced a strategic plan for high-speed rail last year that includes $8 billion in the American Recovery and Reinvestment Act and $1 billion a year for five years in the federal budget. Their goal is to jumpstart a potential world-class rail system in the United States. These economic incentives for a mass U.S. network of high-speed rail trains, or HSR, along existing transportation corridors could create much-needed jobs, decrease our dependence on foreign oil and fossil fuels, and significantly reduce greenhouse gas emissions.

### High speed rail decreases US oil dependence

Ann Mesnikoff, Green Transportation campaign director for the Sierra Club, “High-Speed Rail Can Be Profitable, Create Jobs” AlterNet, 3-5-2010, <http://blogs.alternet.org/annmesnikoff/2011/03/15/high-speed-rail-can-be-profitable-create-jobs/>)

Committee head Rep. John Mica held this hearing in his home state of Florida. Now, Florida is a particularly good state to hear about the need for high-speed rail as a transportation choice since Governor Rick Scott rejected federal funds last month for such a project in the Sunshine State. It is unfortunate that officials are choosing Big Oil over solutions that can end our oil dependence. And now we’ve got new research showing that a high-speed rail line from Tampa to Orlando “could be operated with a healthy profit.” The study shows that “the line connecting Tampa to Orlando would have had a $10.2 million operating surplus in 2015, its first year of operation. The study showed the line would have had a $28.6 million surplus in its 10th year.” The Florida high-speed rail plan would have served 3.3 million riders in its first year of operation, but now those riders will be stuck in traffic burning gasoline – polluting the air, increasing our addiction to oil while sending dollars overseas to pay for oil. We’ve been standing with concerned citizens at several of these field hearings nationwide from Ohio, California and Tennessee and, of course, in Orlando, Florida. While the field hearings didn’t necessarily include all the right voices (as two of our activists in Tennessee noted in these great OpEds, Chairman Mica did support high speed rail in Florida. And we made sure to let him know there are supporters of good transit across the country out there: We turned in close to 1,000 comments from citizens, all calling for a transportation bill that will increase transportation choices and help end our dependence on oil. We’re also making our voices heard about Gov. Scott’s rail rejection: Environmental groups believe that, given the toll that roads take on natural resources, they’re counting on Scott to endorse SunRail. “We need those choices. Gov. Scott’s actions deny us choices in transportation,” Sierra Club representative Phil Compton said. But despite Gov. Scott’s views and the loss of rail, some Florida cities are forging ahead with better transit plans. Plus, it looks like some states want Florida’s rejected rail money for their own projects that will reduce our oil dependence and create jobs. While we know high-speed rail is not the whole solution to transportation or $4 gallon gas, we do know it is part of a plan that moves our country beyond oil.

# \*\*\*Internal Links\*\*\*

## US Demand Key to Prices

### Empirics prove US demand drives oil price swings

Kathleen King, PhD, Principal, Bates White Economic Consulting, Washington, DC; Ai Deng, PhD, Manager, Bates White Economic Consulting, Washington, DC; David Metz, MSc, Associate, Industrial Economics, January 2012, “An Econometric Analysis of Oil Price Movements: The Role of Political Events and Economic News, Financial Trading, and Market Fundamentals,” http://www.bateswhite.com/media/pnc/4/media.444.pdf

For example, on April 23, 2007, oil prices increased by $2.51. This increase was associated with political events that raised global supply concerns. Venezuela prepared to nationalize four large heavy oil projects to the detriment of private oil companies, and this was expected to reduce investment and lead to a decline in production. On the same day, international observers disputed election results in Nigeria, highlighting the threat of instability in the world’s eighth largest exporter after attacks by militants had shut about one-fifth of oil production. 65 By contrast, on July 31, 2008, oil prices fell by $2.69. This decline was attributed to weak economic news bolstering concerns about shrinking US energy demand. On that morning, a US Labor Department report showed a large increase in jobless claims, and a US Bureau of Economic Analysis report showed that GDP grew at a weaker-thanexpected pace in the second quarter of 2008. 66 Both of these reports were consistent with a reduction in energy demand. The events that occurred on these two days illustrate the differences between the general types of events driving oil price movements before and after July 14, 2008.

### US demand is key to global prices – still trumps china

Chris Cahn, AP Energy Writer, 7-18- 2012, “Oil price climbs above $90 on stronger US demand,” http://finance.yahoo.com/news/oil-price-climbs-above-90-152245296.html)

NEW YORK (AP) -- The price of oil on Wednesday briefly hit $90 per barrel for the first time since May after the government said U.S. oil demand is on the rise. The Energy Information Administration reported that average oil demand increased last week in the U.S. for the third week in a row. Oil demand had been down most of the year, when compared with 2011, as manufacturing activity slowed and drivers cut back on travel. "We keep talking about the slow economy, but the market is seeing some improved oil demand today," said Phil Flynn, an analyst at Price Futures Group. Benchmark U.S. crude rose by 65 cents to end the day at $89.87 per barrel in New York. It hit $90.04 per barrel earlier in the day, the highest since May 30. Brent crude, which sets the price for oil imported into the U.S., rose by $1.16 to end at $105.16 per barrel in London. EIA's weekly petroleum report also noted a surprise drop in gasoline supplies last week as refineries pulled back on production. Oil supplies also fell, though the drop was less than what analysts expected. Meanwhile, China's biggest companies warned of sharp drops in profits this year. That country's economy is still growing at a much faster clip than Western nations, including the U.S., but Premier Wen Jiabao has warned that the pace of growth will be unstable. China is the second-largest oil consumer in the world behind the U.S., and a slowdown in its economy could cut world oil demand.

### US demand key to global prices

Xinhua Global News on hispanicbusiness.com, 7-19-2012, “Oil Prices Climb for 6th Day on Rising US Demand,” http://www.hispanicbusiness.com/2012/7/19/oil\_prices\_climb\_for\_6th\_day.htm)

U.S. oil prices extended the winning streak to the sixth straight day on Wednesday after the latest report showed energy demand in the United States was growing. According to the Energy Information Administration, U.S. average oil demand increased for the third week in a row. U.S. crude oil inventories fell by 809,000 barrels last week while gasoline inventories dropped by 1.82 million barrels, contrary to forecasts.

### US demand controls global oil prices

David Bird, Staff Writer for The Wall Street Journal, 12- 27-2010, “Oil, at $91-Plus, Feeling U.S. Demand,” http://online.wsj.com/article/SB10001424052748703548604576038063610849574.html)

Crude-oil futures prices, at a two-year high above $91 a barrel, are finding support from a surprising source: U.S. oil demand. Three weeks ago, U.S. forecasters said December oil demand would dip from a year ago. That would have been par for the course for the world's biggest oil consumer this year, after gasoline consumption underwhelmed over the summer and oil and fuel supplies reached a 27-year high in September. The combination of struggling demand and an oil glut had kept prices nearly flat this year even as most other commodity markets soared. But in the latest three weeks, consumption is topping the year-earlier level by nearly one million barrels a day. Demand in the four-week period ended Dec. 17 averaged nearly 19.7 million barrels a day, the highest level since Feb. 20, 2009, according to the U.S. Energy Information Administration. Back then, gains were fueled by the oil price collapse to $40 a barrel, from the summer 2008 record high near $150 a barrel. January crude futures ended last week at a two-year high of $91.51 a barrel, up 13% in the last month. Encouraging U.S. economic data spurred prices higher on Thursday, particularly a drop in new jobless claims. U.S. oil inventories have also dropped over 5% in the last three weeks of government data. Strong demand could prove to be a mirage, but if sustained, it may provide the grounds for a run on the $100-a-barrel mark. Improving U.S. demand would add to dynamic growth in emerging economies like China, and further draw down excess supplies.

### **America is a key consumer of oil**

USHSRA(US high speed rails association), 2012, “Energy Security”, US HSR, <http://www.ushsr.com/benefits/energysecurity.html>

Building an electrically-powered national high speed rail network across America is the single most powerful thing we can do to get the nation off oil and into a secure, sustainable form of mobility. A national network of high speed trains can be powered by a combination of renewable energy sources including wind, solar, geothermal, and ocean/tidal energy.¶ America's dependency on oil is the most severe in the world, and inevitably pulls us into costly resource wars. It also pushes us into exploring for oil in extreme locations such as 10,000 feet deep below the Gulf of Mexico. We use 25% of the entire world's oil supply, yet we only have 5% of the world's population. We use 8-10 times more oil per person per day than Europeans, and they have faster, easier and better mobility than we do. The extremely high daily oil consumption of Americans is not due to a higher standard of living, but because of the extremely inefficient nature of our national transportation system – based on individual vehicles powered by internal combustion engines, combined with our sprawling community designs that force people into cars for every trip.¶ As the world oil supply begins to peak and then irreversibly declines, prices will rise faster, and the situation will get far worse for America if we don't quickly reduce our national oil dependency. This dependency cuts across our entire society and affects our daily survival. Oil provides 95% of the energy to grow, process and deliver food to the nation. Our entire national transportation system is powered mostly by oil. Numerous daily products we use are made from oil. We use 20 million barrels of oil every day - just in America - 70% of it for transportation. Of the 20 million barrels we consume, we import 2/3 of this oil (13 million barrels per day) from foreign sources, many in unstable places. No combination of drilling off our coasts, hydrogen fuel cells, natural gas, biofuels, and used french fry oil will solve this and carry 300 million Americans into the future. None of these fuels can be scaled up to anywhere near the amount of liquid fuel we use daily in any practical, economical, or sustainable way.

### US consumes oil from many international companies

Jason Churchill, journalist, 11-13-2000, “oil consumption in north america”, College Essay, <http://maps.unomaha.edu/peterson/funda/sidebar/oilconsumption.html>

The demand for oil in the United States is increasing slightly every year but domestic oil production is decreasing. The U.S. is expected to consume an average of 19.6 million barrels per day of oil in 2000. It is estimated that the U.S. imported 10.9 million barrels per day of oil in the first eight months of 2000, (E.I.A. Paragraph 9). At this rate, the U.S. is currently importing about 57% of the oil that is being consumed. The main suppliers of oil to the U.S. at this time are; Canada (1.68 million barrels per day), Saudi Arabia (1.49 million barrels per day), Venezuela (1.46 million barrels per day), and Mexico (1.35 million barrels per day). The U.S. has energy sanctions against Iran, Iraq, and Libya, all major oil producers, that prohibit U.S. companies from doing business with them.

### **We can’t reduce imports, were too reliant**

Todd Ganos, German Chancellor, 1-3-2012, “breaking us dependence on foreign oil”, Forbes, <http://www.forbes.com/sites/toddganos/2012/01/03/breaking-u-s-dependence-on-foreign-oil/>

U.S. crude oil consumption is roughly 7 billion barrels per year, of which approximately 4.5 billion barrels is imported. Based on data from the U.S. Energy Information Administration, about 24 trillion cubic feet of natural gas per year would be needed to replace the 4.5 billion barrels per year we import.¶ The U.S. currently produces just under this amount each year. With an effective doubling of consumption of natural gas each year, an expansion of infrastructure would be needed. Such an expansion might take ten years to implement. But, it would be a shift from energy investment that we are already paying for outside the United States to energy investment inside the United States. This would likely have the effect of pulling jobs back into the U.S.

## Oil key – Russia Scenario

### High prices key to the Russian economy – 2/3 of all revenue

Michael Schuman is a staff writer for Times Business. 7-5-2012. http://business.time.com/2012/07/05/why-vladimir-putin-needs-higher-oil-prices/?iid=tsmodule)hs

Falling oil prices make just about everyone happy. For strapped consumers in struggling developed nations, lower oil prices mean a smaller payout at the pump, freeing up room in strained wallets to spend on other things and boosting economic growth. In the developing world, lower oil prices mean reduced inflationary pressures, which will give central bankers more room to stimulate sagging growth. With the global economy still climbing out of the 2008 financial crisis, policymakers around the world can welcome lower oil prices as a rare piece of helpful news. But Vladimir Putin is not one of them. The economy that the Russian President has built not only runs on oil, but runs on oil priced extremely high. Falling oil prices means rising problems for Russia – both for the strength of its economic performance, and possibly, the strength of Putin himself. Despite the fact that Russia has been labeled one of the world’s most promising emerging markets, often mentioned in the same breath as China and India, the Russian economy is actually quite different from the others. While India gains growth benefits from an expanding population, Russia, like much of Europe, is aging; while economists fret over China’s excessive dependence on investment, Russia badly needs more of it. Most of all, Russia is little more than an oil state in disguise. The country is the largest producer of oil in the world (yes, bigger even than Saudi Arabia), and Russia’s dependence on crude has been increasing. About a decade ago, oil and gas accounted for less than half of Russia’s exports; in recent years, that share has risen to two-thirds. Most of all, oil provides more than half of the federal government’s revenues. What’s more, the economic model Putin has designed in Russia relies heavily not just on oil, but high oil prices. Oil lubricates the Russian economy by making possible the increases in government largesse that have fueled Russian consumption. Budget spending reached 23.6% of GDP in the first quarter of 2012, up from 15.2% four years earlier. What that means is Putin requires a higher oil price to meet his spending requirements today than he did just a few years ago. Research firm Capital Economics figures that the government budget balanced at an oil price of $55 a barrel in 2008, but that now it balances at close to $120. Oil prices today have fallen far below that, with Brent near $100 and U.S. crude less than $90. The farther oil prices fall, the more pressure is placed on Putin’s budget, and the harder it is for him to keep spreading oil wealth to the greater population through the government. With a large swath of the populace angered by his re-election to the nation’s presidency in March, and protests erupting on the streets of Moscow, Putin can ill-afford a significant blow to the economy, or his ability to use government resources to firm up his popularity. That’s why Putin hasn’t been scaling back even as oil prices fall. His government is earmarking $40 billion to support the economy, if necessary, over the next two years. He does have financial wiggle room, even with oil prices falling. Moscow has wisely stashed away petrodollars into a rainy day fund it can tap to fill its budget needs. But Putin doesn’t have the flexibility he used to have. The fund has shrunk, from almost 8% of GDP in 2008 to a touch more than 3% today. The package, says Capital Economics, simply highlights the weaknesses of Russia’s economy: This cuts to the heart of a problem we have highlighted before – namely that Russia is now much more dependent on high and rising oil prices than in the past… The fact that the share of ‘permanent’ spending (e.g. on salaries and pensions) has increased…creates additional problems should oil prices drop back (and is also a concern from the perspective of medium-term growth)…The present growth model looks unsustainable unless oil prices remain at or above $120pb.

### Price decline causes Russian collapse

Energy Probe, 3-2-2012, by Lawrence Solomon, author of “The Conserver Solution”, Leading Canadian environmentalist, http://ep.probeinternational.org/2012/03/05/lawrence-solomon-vladimir-the-great/

The upshot? Despite his regime’s less-than-honourable attributes, such as rampant corruption and short life spans for too-curious reporters, Putin is expected to win as much as 66% of the vote in Sunday’s election, some 50 percentage points ahead of his nearest rival, at 15%. With the world coming out of recession and needing more of Russia’s oil and gas — these account for nearly two-thirds of Russia’s export revenue, half or more of the government’s budget, and as much as 30% of the country’s GDP — it is easy to foresee continued prosperity in Putin’s fourth term. It is also easy to foresee a Russian economic collapse thereafter, following a collapse in oil and gas prices.

### Low oil prices leads to quick Russian collapse

Ben Aris, staff writer, 7-5-2012, “Russian economy showing signs of overheating,” The Moscow Times, <http://www.themoscowtimes.com/blogs/434424/post/russian-economy-showing-signs-of-overheating/461657.html>

But on the other hand, the behavior of companies suggests that the economy is slowing down. Industrial production took a nose dive in March — as it did in the rest of the world as growth collapsed for psychological reasons as much as anything else. This means that the Central Bank should move to bolster confidence and encourage growth. Put in simple terms, the dilemma is: the Central Bank should increase interest rates to curb inflation and cool the economy, and at the same time it should cut rates to encourage more investment and growth. The upshot of this confusion is that economists are forecasting a wide spread of growth rates this year, from at least 3 percent to 5 percent. When spreads on forecasts get this wide, it always means that the experts are basically clueless about what will happen next. To be fair, Russia's strong growth is fragile because it is partly connected to the recovery of the oil price, which is currently back at about $100 a barrel. Because of the lack of reforms and investment, high oil prices are pumping money into the economy, which is feeding through to consumer demand. If oil prices fall — an event the government is preparing for by adding a $60 scenario to its budget planning despite assuming an average price of $115 for this year — then that would quickly take the wind out of Russia's sails. But that has always been Russia's problem. Strong consumer demand has encouraged real progress and investment, but it is still nowhere near what is needed.

### The oil market is key to the Russian economy – generates half of the federal revenues

Sujata Rao is a staff writer for Reuters. 5-19-2012, <http://www.reuters.com/article/2012/05/19/ebrd-russia-idUSL5E8GJ20V20120519>

Brent crude futures fell last week to 2012 lows below $107 a barrel as the euro zone crisis hit world growth expectations. But Storchak said there were still big oil supply risks while energy demand in [China](http://www.reuters.com/places/china) and India remained robust. “Oil prices are still high, we are comfortable...I don't think we need to be afraid." "Our budget is based on a $100 per barrel price for Urals, though it's true, there is talk of $110 (for the budget) for next year," he said, referring to the Russian benchmark crude blend which trades at a slight discount to Brent. "Currently prices are still above that." "We have a balanced budget," he told reporters on the sidelines of the meeting of the European Bank for Reconstruction and Development. The oil price fall has taken a heavy toll on the rouble as well as the Russian stock markets, with the former now trading at 4-1/2 month lows against the dollar. Around half of federal revenues are generated by oil and gas levies. Storchak said the market selloffs indicated a "lack of faith in policymakers from various countries." "There is no serious underlying macroeconomic reason for such turbulence. The financial sector has clearly broken off from the rest of the economy. I think this is a problem that needs to be dealt with." But he said ongoing capital outflows were linked to transfers from corporate debt repayments and added: "For the time being there are not so many attractive investment projects within the country." Storchak said Russia hoped to go ahead and introduce the trading rules of international settlement bank Euroclear from July 1 as planned despite some calls for the step to be delayed. Asked if implementation of Euroclear would go ahead from July 1, Storchak said: "We are working on this. Not everything is ready, the security commission is working on this. I hope we will succeed. We are quite strong on this, I mean, me and my colleagues." Access to Euroclear will make Russian local paper directly accessible to foreign investors and could bring up to $10 billion into the domestic debt market by 2014. But many local financial market participants have expressed concern, saying its implementation could spur capital outflows.

### High oil prices key to keep Russia’s economy stable

Rapoza 12

Kenneth Rapoza is a staff writer for Forbes. 1/28/2012. <http://www.forbes.com/sites/kenrapoza/2012/01/28/high-oil-prices-bode-well-for-russian-government/>

High oil prices mean more cash flowing into the Russian government. The country is dependent on energy exports to keep its budget surplus in tact. Oil futures cracked $100 a barrel this week, before settling at $99.56 for the May contract for WTI crude. Still, prices like that bode well for Russia’s public coffers. International Monetary Fund’s Moscow representative, Odd Per Brekk, said in an interview with Russian newswire Ria Novosti that high oil prices actually opened a “window of opportunity” for the country to take measures to strengthen and protect its economy from the ongoing problems facing Europe, it’s biggest oil and gas customer. To take full advantage of this opportunity, Brekk said, the Russian government must undertake a complete economic transformation – keeping inflation at 3%-5%, cutting budget expenses, improving the financial sector and reducing its dependence on commodities materials. One way to do it is to use their oil wealth as a means to justify reform. Current geopolitical events are supporting high oil prices, mainly problems in Libya and Syria, and a new oil embargo against Iran. Ria Novosti also noted in its report that Iraq was contributing to high oil prices as well. As U.S. troops head home, some oil firms are looking at the security risks there and wondering if it is worth maintaining current projects. Russia’s government is expecting that the Iran oil embargo will contribute to a 10%-15% rise in oil prices, including the possibility of Iran closing the Strait of Hormuz, an important oil route in the Middle East.

## Oil key – Saudi Arabia

### Saudi Arabia needs more than $100 a barrel to sustain social spending

Michael Peel, AND Javier Blas, writers, “Saudi budget could require high oil price”, 3-31-2012, Financial Times, <http://www.ft.com/intl/cms/s/0/87d60044-5bbb-11e0-b8e7-00144feab49a.html#axzz20zLPp2yl>

Saudi Arabia could need the oil price to average more than $100 a barrel by 2015 to sustain the big public spending rises it plans in an effort to forestall the political unrest sweeping the Middle East. The oil market is growing increasingly worried about Riyadh’s fiscal needs as it fears that they could force Saudi Arabia to pursue oil policies similar to those of Venezuela and Iran, traditionally the price hawks at the Opec oil cartel. The break-even oil price the Gulf kingdom requires to balance its budget will jump from $68 last year to $88 this and then $110 in 2015, according to new estimates by the Institute of International Finance, a leading industry group. Only a decade ago Saudi Arabia was able to balance its budget with oil prices averaging $20-$25 a barrel. The forecast shows the scale of the task facing Saudi Arabia, the world’s largest oil producer and a crucial plank of the west’s regional security strategy, as it grapples with a growing population and increasing infrastructure problems. Crude oil prices on Thursday surged higher as Libyan rebels failed to make fresh ground against forces loyal to Muammer Gaddafi, suggesting a protracted oil supply disruption in the north African country. ICE May Brent rose to a session high of $117.70 a barrel, near a 2½-year high. It closed at $117.36 a barrel, up $2.23 on the day. Nymex May West Texas Intermediate closed at $106.72, a day’s rise of $2.45. The rise in oil prices caused by the unrest in the Middle East will help Saudi Arabia and other Opec nations to pay for the increased spending. The International Energy Agency, the western countries’ oil watchdog, believes Opec revenues will surpass $1,000bn this year for the first time. The forecasts of higher oil revenue needs come after the Saudi government announced two packages of social spending totalling $129bn aimed at averting the spread of dissent that toppled the Egyptian and Tunisian leaders. The largesse failed to satisfy activists who were angry that the package did not include reforms.

### Social spending key to buying loyalty and quelling social unrest

Knowledge Today, “To Stave Off Arab Spring Revolts, Saudi Arabia and Fellow Gulf Countries Spend $150 Billion”, 9-21-2012, UPenn <http://knowledgetoday.wharton.upenn.edu/2011/09/to-stave-off-arab-spring-revolts-saudi-arabia-and-fellow-gulf-countries-spend-150-billion/>

Saliba and his colleagues cautioned that the outsized spending did not address the long-term nature of the problems presented by the Arab Spring, such as high unemployment. “This [social spending] has averted potential disquiet over governance in most countries, though, over a longer-term horizon, economic reforms will be needed to buoy private sector growth and job creation.” Saudi Arabia’s generosity has been criticized as a means for the Arab world’s most populous country to make political gains and spread influence. The Merrill Lynch report also does not take into account the cost incurred by Saudi Arabia to send its troops into neighboring Bahrain to help quell a Shiite uprising there — another action to prevent revolt from reaching its own borders. But in a recent analysis of the Arab Spring for Arabic Knowledge@Wharton, Wharton legal studies and business ethics professor Stuart Diamond said the spending by the Saudis demonstrated their understanding of negotiation. “They understood that for many people, it was about Maslow’s [hierarchy of] needs triangle: that is, basic life necessities such as food, shelter and health mattered most. So the stipends that the Saudi government gave helped to quell disturbances,” he noted. Diamond added that Saudi spending bought not only continued loyalty from its citizens. “What they have mostly bought was time. For now, the populace will be satisfied with their recent bonuses. But that does not amount to structural and sustainable change, the kind that would significantly improve everyone’s quality of life on a continuing basis. The Saudi government should take this opportunity to include more people in decision-making and develop new industries that give more people a chance at a better life over the long term.”

### Youth unemployment causes massive unrest, spreads regionally

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 “Youth unemployment is a time bomb for Saudi Arabia,” says Jean-Francois Seznec, a professor at Georgetown University’s Center for Contemporary Arab Studies in Washington. King Abdullah responded by announcing in 2011 a $130 billion plan to create jobs, build subsidized housing and support the religious establishment that had backed the government’s ban on domestic protests. Labor Minister Adel Faqih in May 2011 announced a program to reduce unemployment called Nitaqat, or Ranges, that for the first time rewards companies that employ a higher percentage of Saudis. “What they’ve done to slow any reaction to the Arab Spring is to throw money at people, with some success,” Seznec says. Persistent unemployment could have broad repercussions. Though there are some informal efforts to create activities ranging from impromptu comedy clubs to a girls’ basketball league, Saudi youth have few sanctioned outlets where they can have fun, exacerbating frustrations over unemployment. Unrest? “You are talking about the risk of this frustration going into political activism,” says David Butter, regional director for the Middle East at the London-based Economist Intelligence Unit. If political unrest got out of hand, it could threaten the oil industry and its exports, Butter says. The kingdom’s proven oil reserves of 263 billion barrels are the world’s largest. In February, the country produced 9.68 million barrels a day -- about a third of the total for the Organization of Petroleum Exporting Countries, according to data compiled by Bloomberg. Any instability in Saudi Arabia would also create ripples throughout the Middle East. As the birthplace of Islam and home to its two holiest sites, in Mecca and Medina, the country wields immense sway in the Muslim and Arab world and maintains influence in countries such as Lebanon and Bahrain and in the Israeli-Palestinian conflict.

## Oil key – Kuwait Econ

### High oil demand is key to Kuwait’s economy

Fasih Uddin, chief economist of Planning Commission of Pakistan, 2004, “Kuwait Economy at the Crossroads,” Institute of Policy Studies, http://www.ips.org.pk/the-muslim-world/1043-kuwait-economy-at-the-crossroads.html

Since liberation from Iraqi occupation in February 1991, Kuwait has passed through various phases of reconstruction and development. The earlier post liberation period was devoted to restoration and rehabilitation of oil facilities and production, rebuilding infrastructure, rehabilitation of people, and restoration of essential supplies including foodstuffs, utilities and industrial raw materials, etc. With the efforts of the government and people supported by other nations, the conditions were normalised rather quickly; with the economy recording an annual average growth of 12 percent in 1991-5. The growth rate slowed down thereafter; re-bouncing once again in 2003-4. In these two years the economy grew by 9.7 and 7.2 percent respectively, in sharp contrast to the dismal growth averaging 0.3 percent during 1999-2002. Besides oil, other sectors also shared this positive performance.¶ ¶ Despite this revival of high growth, the economy faces many challenges, especially connected with one-commodity dominance (namely, oil). About one-half of the national output is contributed by oil and oil related activities. Over 90 percent of export earnings are from oil and oil based products. Income from oil and oil-funds invested abroad are the main source of government revenues (i.e., over 93 percent). Government is the main source of employment with two-third of current budget expenditure incurred on salaries, wages and transfer payments. Over 88 percent of budget is incurred on current expenditure leaving a meagre amount of 12 percent for capital expenditure. National savings are high but a major part of them is invested out side the country. In addition, the country is faced with the problem of providing jobs to the nationals, especially in private sector, and revitalising the private enterprise. The economic sustainability thus warrants actions on many fronts, including broad-basing the economy, substantial increase in domestic investment, reshaping public finance, expanding non-oil exports, and creating job opportunities for the Kuwaitis.¶ ¶ Broad basing the Economy¶ The behaviour of the economy heavily depends on the performance of the oil sector and world petroleum situation. In general, when world demand and prices of oil go up, domestic oil production rises and economic growth, revenues and export earnings pushed up. Fall in world oil prices and demand has reverse effects. The oil sector also has contagious effect on other areas like manufacturing, trade, communications and public finance. The relationship between growth rates of real GDP and oil-GDP may be seen in table 1. For instance 6.5 percent decline in oil-GDP in 1999, pulled down the overall GDP growth to a negative level of -1.8 percent, despite a positive growth of 2.1 percent in non-oil GDP. Conversely, high growth of 19.8 percent in oil sector in 2003 pushed up the overall growth to 9.7 percent, besides help improving the growth of non-oil sector.¶ This heavy dependence on oil has made the economy vulnerable. The sustainability of growth is therefore linked either with the continuation of favourable world oil situation (which presumably is unlikely), or with developing the non-oil sector rapidly. Given the position of natural endowment and other factors, developing the non-oil sector is a big challenge. Most of the country being desert, with no perennial source of water and little rainfall, the scope of developing agriculture is remote. So is the position of minerals, other than oil. Manufacturing sector, which accounts for about 11 percent of GDP, seems to be an area of promise. Even this sector is dominated by oil as petroleum-refining industry accounts for 90 percent of the value added of the manufacturing sector. The base of non-oil industry remains low and geared to meeting domestic needs. Services sector is another possible area that needs to be explored. Sustained efforts and huge investment are required to exploit fully the potential of these sectors.

### Kuwait economy vulnerable to oil prices

Reuters, 8-14-2011, “Kuwait economy more vulnerable to oil prices, official says,” http://www.arabianbusiness.com/kuwait-economy-more-vulnerable-oil-prices-official-says-415520.html

Kuwait's government spending boost made the economy more vulnerable to a fall in oil prices due to the OPEC member's significant dependence on crude revenue, a senior central bank official was quoted as saying by a daily newspaper on Sunday.¶ "Kuwait's economy is the most vulnerable... among GCC countries," Mohammed Al Kadi, a member of the central bank's board, told Arabic daily Al Qabas in an interview.¶ "They [other GCC states] are able to deal with any emergency crisis because spending in these countries on salaries, wages and subsidies did not reach the level of Kuwait's budget," he said.¶ Kadi also said a jump in oil prices earlier this year was considered a "catastrophe" for the Gulf Arab state because it has encouraged a steep increase in government spending rather than adding up to the country's savings.

## Oil key – Iran Economy

### Decrease in oil usage destroys Iran’s economy

Sky News, 1-23-2012, “Analysis: How Oil Embargo Will Affect Iran,” Sky News, http://news.sky.com/story/919614/analysis-how-oil-embargo-will-affect-iran

The latest round of American sanctions and the EU oil embargo have prompted a currency crisis in Iran which has seen the rial lose about a third of its value in recent weeks.¶ The Government is visibly rattled, hiking interest rates to 20% in an effort to stem the flow of rials out of Iranian banks and deploying police in the streets to clamp down on informal currency trading.¶ Iran's currency woes sit on top of an already fragile economy rife with mismanagement and facing endemic problems with unemployment and inflation - officially estimated at around 10% and 20% respectively, but thought to be higher in reality.¶ In apparent recognition of Iran's economic vulnerability, the Ahmadinejad administration moved last year to phase out an expensive subsidy regime in place since 1980 seen by many Iranians as their birthright. ¶ But some economists have warned that lifting the price controls will only aggravate Iran's high inflation and unemployment in the short term.

## Oil Key – Libya Economy

### Libyan economy recovering now but drop in oil prices will gut growth

Reuters, 7-10-2012, “Sees Libya economic growth doubling this year”, <http://articles.chicagotribune.com/2012-07-10/news/sns-rt-imf-libya-update-2l2e8ia9ae-20120710_1_libya-imf-mission-muammar-gaddafi>

Libya's economy is likely to rebound sharply this year from a deep contraction in 2011 as the country rebuilds from civil war and oil production recovers to levels last seen during Muammar Gaddafi's rule, the International Monetary [Fund](http://articles.chicagotribune.com/2012-07-10/news/sns-rt-imf-libya-update-2l2e8ia9ae-20120710_1_libya-imf-mission-muammar-gaddafi) said on Tuesday. In a report on Libya's economy resulting from an IMF mission in May but published only now, the fund forecast growth will skyrocket 116.6 percent in 2012 following a contraction of 60 percent last year. Growth next year is likely to slow to 16.5 percent and 13.2 percent in 2014 as the effects of the war on the economy wane, the IMF added. Such [impressive](http://articles.chicagotribune.com/2012-07-10/news/sns-rt-imf-libya-update-2l2e8ia9ae-20120710_1_libya-imf-mission-muammar-gaddafi) rebounds in growth are not unusual in countries emerging from conflict when the economy is boosted by rebuilding projects and pent-up private demand. The IMF statement on Libya comes as the country awaits the outcome of a historic vote on Saturday to elect a national assembly. While Libya's [government](http://articles.chicagotribune.com/2012-07-10/news/sns-rt-imf-libya-update-2l2e8ia9ae-20120710_1_libya-imf-mission-muammar-gaddafi) can afford the current high rates of spending in the short term, the IMF estimated that it is not sustainable over the longer term and will push the budget into deficit from 2015. "A more thorough analysis of sustainability based on the present value of financial [assets](http://articles.chicagotribune.com/2012-07-10/news/sns-rt-imf-libya-update-2l2e8ia9ae-20120710_1_libya-imf-mission-muammar-gaddafi) and future oil extraction indicates that from 2012, public spending will exceed the sustainable, long-term level by over 10 percent of [GDP](http://articles.chicagotribune.com/2012-07-10/news/sns-rt-imf-libya-update-2l2e8ia9ae-20120710_1_libya-imf-mission-muammar-gaddafi)," the fund added. The IMF also warned that continued political uncertainty, insecurity and the possibility of a drop in global oil prices were all risks to Libya's economic outlook. Last week around half of Libya's oil exporting capacity was shut down and production cut by about 300,000 barrels per day (bpd) from about 1.3 million bpd after protests by groups demanding autonomy for eastern Libya, the source of most of the country's oil. The oil price at which Libya's budget is balanced is about$91 per barrel in 2012, an increase from $58 a barrel in 2010, and is set to exceed $100 a barrel from 2013, the IMF said. Brent crude prices traded at about $97 a barrel on Tuesday. A deeper crisis in the euro zone and sharper slowdown in the world economy could push global oil prices lower, which would be pose challenges for Libya's oil dependent economy, the IMF said.

### Libyan economy depends on world oil prices

Joulan Abdul Khalek, 1-2-2012**,** Research assistant at the Carnegie Middle East Center, has analyses on the political economy of the Middle East in Carnegie's International Economic Bulletin, holds a Master of Science in International Political Economy from the London School of Economics and Political Science, “Libya's new struggle: overcoming Gheddafi's economic system”, http://www.aspeninstitute.it/aspenia-online/article/libyas-new-struggle-overcoming-gheddafis-economic-system

The Libyan economy is fully dependent on the hydrocarbon sector – specifically oil. According to data from the International Monetary Fund and the Arab Monetary Fund statistical bulletins, the proceeds from oil make up more than 88% of total government revenue, 98% of total exports and around half of the country's GDP. In 2009, the services sector made up around 31% of nominal GDP with 7% for the manufacturing sector and 3.2% for agriculture. Two factors are of paramount importance. First Libya's GDP exhibits a very high level of volatility, with growth rates ranging from -36% to 60% in the last 20 years. Second, the performance of the country's GDP clearly trails that of world oil prices, which leaves the country open to a great deal of external risk and uncertainty.

### Oil is key to economic recovery in Libya post-civil war

Libya Business News, 1-31-2012, Provides news locally with offices/agents in Tripoli, a means of communicating with decision makers in the Government, local agencies, embassies and major corporations, “[Restoring oil output key to Libya’s recovery: IMF](http://www.libya-businessnews.com/2012/01/31/restoring-oil-output-key-to-libyas-recovery-imf/)”, <http://www.libya-businessnews.com/2012/01/31/restoring-oil-output-key-to-libyas-recovery-imf/>

Restoring oil and gas production in Libya is key to rebuilding the country and reviving the economy after an eight-month civil war, the International Monetary Fund said on Monday, while it warned the government’s finances remained “precarious.” The IMF forecast that Libya’s economic activity would recover in 2012 as more oil production comes on stream and the government’s cash crunch eases. In a report on the Libyan economy, the IMF said gross domestic product in 2011 contracted by a massive 60 percent as crude output cratered to 22,000 barrels a day in July 2011 from 1.77 million barrels a day in 2010. As of the end of November, around $3 billion in Libya’s foreign assets were unfrozen and made available to Libya, the IMF said. The government is financing itself by borrowing from the central bank and printing money. After the rebellion that broke out a year ago against Muammar Gaddafi, the UN froze Libyan assets abroad, estimated at $150 billion. Gaddafi’s 42-year rule collapsed when his forces fled Tripoli. He was captured and killed by rebels in October. “Restoration of hydrocarbon production is well advanced at over half of pre-revolution levels and remains critical to economic recovery, and reconstruction will boost non-hydrocarbon economic activity,” the IMF said, following discussions with the authorities. Libya holds Africa’s largest oil reserves. Libya’s National Oil Corporation said on Monday oil output had climbed to 1.3 million barrels a day.

### Oil industry provides foundation for economic recovery in Libya

Angus Minns, 12-7-2011, Writes for the Australia Arab Chamber of Commerce & Industry, “Market Update – Libya”, p. 1

The cessation of open hostilities in Libya and the emergence of the National Transitional Council (NTC) in November as the nation’s preeminent governing body are clear signals that Libya is returning to normalcy. This has already begun ushering in an influx of foreign investment seeking to capitalise on the opportunities present in a post-Gaddafi era. Hence, it is vital that Australian investors and companies capitalise on these opportunities immediately or risk being sidelined as other foreign companies take advantage of these prospects. As a result of the conflict, which has engulfed Libya for most of 2011, there is very little economic data available that would allow an accurate assessment of the Libyan economy as it stands. Nevertheless, the unfreezing of foreign cash assets, which run into billions of US dollars, along with Libya’s vast oil and gas reserves provides a stable foundation from which the Libyan economy can be revived. The prospect of Libya restarting its hydrocarbon industry has excited potential foreign investors. Overseas investors were particularly reassured when the NTC’s former Infrastructure Minister, Dr Ahmad al-Jehani, stated that he expected Libya to be producing at least 1.5 million barrels of oil per day within 12 months.

# \*\*\*Impacts\*\*\*

## \*\*\*Turns the Case\*\*\*

### US moves towards energy independence cause OPEC to flood the market with cheap oil—crushes prices and turns the case

Delta Farm Press, 11-16-2001, “OPEC as the Cheshire cat,” http://deltafarmpress.com/opec-cheshire-cat)

Here in the United States, our energy company friends are muttering and moaning because lower prices for oil, gasoline, and natural gas are forcing (?) them to abandon exploration and drilling for new supplies. (Things are so bad, in fact, the administration's proposing to “help” Chevron, Texaco, Enron, and a host of other big corporations with billions of dollars in retroactive tax relief. How's that for sympathy?) Alternative energy development? Hey, who needs it, when Messrs. Exxon, Citgo, et al are charging us a buck or less per gallon at the corner convenience store? Why worry about working toward energy self-sufficiency when the pumps are full and near $2 a gallon a few months ago is only a hazy memory? For 30 years now, going back to the gasoline shortages and long lines of the '70s, this country has been dealing with a feast-and-famine scenario for the energy that is the cornerstone of our economy and our lifestyle. OPEC tightens the spigots, prices go stratospheric, there is widespread hand-wringing about our dependence on foreign oil, much ado is made over reducing that dependence through new energy sources and new exploration, and there is a fervor throughout the land to show the energy barons that now, finally, this time, at last, for real, we mean business. Honestly. Cross our hearts. No kiddin'. But just when it appears something will in fact be done toward increasing domestic energy supplies, getting serious about alternative sources, and making a long-term commitment toward reducing our dependence on foreign oil — well, miraculously, prices go down. OPEC magnanimously increases supply, refineries begin humming, and once again thoughts of a national energy policy fade like the Cheshire cat. Only the cat's grin is left. And the cat is OPEC and the energy industry. They've seen it all before. They know they have only to wait; that we in the United States have a short memory, and that as long as they toss us a sop of energy “bargains” from time to time, we'll moan and groan and pay their price the rest of the time.

## \*\*\*Russia\*\*\*

## Russia – Allies with China Scenario

### Oil profits persuade Russia not to ally with China—the impact is Chinese military modernization and Russia-China war

New York Times, 3-2-2008, “Russia and China rethink arms deals,” http://www.nytimes.com/2008/03/02/world/asia/02iht-arms.1.10614237.html?\_r=1

For almost two decades, it was close to the perfect match of buyer and seller. Denied weapons and defense technology from the West, China was almost totally reliant on Russia for the hardware it needed to jump-start an ambitious military buildup. And while the Russian economy teetered in the aftermath of the Soviet Union's collapse, huge orders from China helped keep a once-mighty defense industry afloat. But powerful new forces, including a fear in Moscow of renewed rivalry with its neighbor and a desire in Beijing to become more self-reliant, have led both sides to re-evaluate this trade. After orders peaked at more than $2 billion a year early in this decade, Chinese arms deals with Russia shrank to almost nothing in 2006, and no major new contracts are in the pipeline, according to Russian, Chinese and U.S. defense experts. "We are in a strategic pause," said Ruslan Pukhov, an expert on the Russian military and director of the Center for the Analysis of Strategies and Technologies, a Moscow-based research institute specializing in the arms trade. "The Chinese and Russians are like long-term lovers who are thinking, 'Shall we continue to share this bed?' " A halt or slowdown in Russian arms deliveries could hamper the Chinese drive to modernize its military. It would also increase pressure on the Chinese arms industry to innovate. Some Western and Russian military experts say they believe that despite decades of intensive effort, Chinese arms makers are still struggling to master the advanced engineering skills needed to build important hardware. In China, there is confidence that these problems will be solved. "The Russians can maintain their lead for a certain period, but eventually we will catch up," said Shen Dingli, an international affairs analyst at Fudan University in Shanghai. "China will be a formidable technological competitor to anybody." In the meantime, Russia - which, with its economy booming, is no longer dependent on arms sales to China - is concentrating on managing a complex relationship with its increasingly powerful neighbor, analysts say. Longstanding Chinese claims on territory in the Russian Far East, competition for energy and water resources and illegal migration from China underscore the potential for tension between the two countries. And while they continue to enjoy warm ties, some Russians point to the Chinese-Soviet split that culminated with border clashes in 1969 as a reminder that friction could return. "Russians feel genuinely concerned, in the medium to longer term, that Russian and Chinese interests may collide again," said Alexey Muraviev, a strategic affairs analyst at Curtin University of Technology in Perth, Australia. "There is this debate about whether we should arm the Chinese when they may eventually use them against us." Some Chinese analysts suggest that Russia, the world's second-ranked arms supplier behind the United States, is also concerned about the threat of competition from the Chinese defense industry. "We want to buy better-quality weapons, but they refuse," Shen said. "If I was Russian, I would do the same thing. We are a country that is very capable of using their technology to build our own versions and competing with them." Neither country publishes comprehensive figures on weapons shipments. But drawing on some announced deals, press reports and private monitoring of arms transfers, Russian analysts estimate that arms deliveries to China from 1992 to 2006 were valued at $26 billion. Total Russian arms exports over that period were estimated at more than $58 billion. With a Western embargo on arms sales to China having been in place since the Tiananmen killings in 1989, it was these weapons from Russia that allowed the People's Liberation Army to reduce a yawning gap in technology and firepower with other regional powers, including Taiwan, South Korea and Japan. With sustained, double-digit annual increases in defense spending, China is increasingly seen as a potential rival to the United States, the dominant military power in East Asia. But Beijing has become increasingly reluctant to rely so heavily on imported weapons, experts say. From the outset of its dealings with Russian military factories in the early 1990s, China has insisted on technology transfer as part of its long-term plan to modernize its domestic arms industry. Moscow has certainly complied with some of those demands. It has allowed the licensed assembly of fighter aircraft and other weapons in China. Experts say there is also evidence of considerable, ongoing Russian technology transfer in the design of indigenously built Chinese military aircraft, space launch vehicles, submarines, surface warships and other hardware. Mostly, however, China has taken delivery of complete weapons or assembly kits. Arms trade monitors including the Stockholm International Peace Research Institute have tracked what amounts to a huge transfer of military capability to China since 1992. The biggest ticket items over that period have been four Sovremenny-class destroyers armed with supersonic anti-ship missiles, 12 Kilo-class submarines and about 285 advanced fighters and strike jets from the Sukhoi family of aircraft, according to Russian arms trade monitors and the Stockholm institute. Some experts suggest deals have tapered off because these and other shipments saturated the market. "In 2006 there were no especially large Chinese arms agreements with Russia, possibly because the Chinese military is focused on absorbing and integrating previous arms purchases from Russia into its force structure," a U.S. Congressional Research Service security analyst, Richard Grimmett, wrote in a report late last year. Even so, experts agree that China wants a different relationship. "The principle challenge for Russia is that China no longer wants to buy completed weapons and platforms," Muraviev said. Experts say recent negotiations on big contracts to supply advanced fighters have effectively stalled, with Beijing insisting that Russian makers grant licenses that would allow production of sophisticated aircraft in China. And the Chinese Army is less interested in the superseded or under-gunned Soviet-era hardware that has accounted for the bulk of imports. "They were happy with this in the 1990s, but now they are starting to demand more technology transfers," Pukhov said. Chinese experts say the army wants access to the most advanced Russian weaponry, including strategic bombers, tanks, attack helicopters and manufacturing technology for high-performance aircraft engines. In a sign of tension in the military relationship, China last year suspended or deferred some big-ticket deals in a dispute over costs, including orders for 34 IL-78 transport aircraft and 4 IL-78 airborne tankers worth a combined $1.05 billion, according to analysts and reports in the Russian military press. Regular, high-level negotiations between the two governments on arms sales have also been put on hold, analysts say. In the meantime, some defense experts say the domestic Chinese arms industry has made strides towards self-reliance. "While China still imports a host of systems from Russia and other partners to fill critical gaps in the short term, Chinese defense manufacturers increasingly are becoming able to develop indigenous systems with new capabilities," the U.S.-China Economic and Security Review Commission said in a November report to the U.S. Congress. A decade ago, as military spending shriveled, a slump in orders from China would have been disastrous for Russian arms makers. That is no longer the case, with the Russian economy growing at 8.1 per cent on the back of rising energy and commodity exports, according to official economic statistics. With Moscow running a budget surplus, there are orders in the pipeline to supply the Russian military with hardware that until recently could only be sold abroad. And overall arms exports remain buoyant, particularly to India, a long-term client that Moscow views with far less suspicion than China.

### Extinction

Alexander Sharavin, 10-3-2001, Director of the Institute for Military and Political Analysis, What the Papers Say

Now, a few words about the third type of war. A real military threat to Russia from China has not merely been ignored; it has been denied by Russia's leaders and nearly all of the political forces. Let's see some statistic figures at first. The territory of Siberia and the Russian Far East comprises 12,765,900 square kilometers (75% of Russia's entire area), with a population of 40,553,900 people (28% of Russia's population). The territory of China is 9,597,000 square kilometers and its population is 1.265 billion (which is 29 times greater than the population of Siberia and the Russian Far East). China's economy is among the fastest-growing economies in the world. It remains socialistic in many aspects, i.e. extensive and highly expensive, demanding more and more natural resources. China's natural resources are rather limited, whereas the depths of Siberia and the Russian Far East are almost inexhaustible. Chinese propaganda has constantly been showing us skyscrapers in free trade zones in southeastern China. It should not be forgotten, however, that some 250 to 300 million people live there, i.e. at most a quarter of China's population. A billion Chinese people are still living in misery. For them, even the living standards of a backwater Russian town remain inaccessibly high. They have absolutely nothing to lose. There is every prerequisite for "the final throw to the north." The strength of the Chinese People's Liberation Army (CPLA) has been growing quicker than the Chinese economy. A decade ago the CPLA was equipped with inferior copies of Russian arms from late 1950s to the early 1960s. However, through its own efforts Russia has nearly managed to liquidate its most significant technological advantage. Thanks to our zeal, from antique MiG-21 fighters of the earliest modifications and S-75 air defense missile systems the Chinese antiaircraft defense forces have adopted Su-27 fighters and S-300 air defense missile systems. China's air defense forces have received Tor systems instead of anti-aircraft guns which could have been used during World War II. The shock air force of our "eastern brethren" will in the near future replace antique Tu-16 and Il-28 airplanes with Su-30 fighters, which are not yet available to the Russian Armed Forces! Russia may face the "wonderful" prospect of combating the Chinese army, which, if full mobilization is called, is comparable in size with Russia's entire population, which also has nuclear weapons (even tactical weapons become strategic if states have common borders) and would be absolutely insensitive to losses (even a loss of a few million of the servicemen would be acceptable for China). Such a war would be more horrible than the World War II. It would require from our state maximal tension, universal mobilization and complete accumulation of the army military hardware, up to the last tank or a plane, in a single direction (we would have to forget such "trifles" like Talebs and Basaev, but this does not guarantee success either). Massive nuclear strikes on basic military forces and cities of China would finally be the only way out, what would exhaust Russia's armament completely. We have not got another set of intercontinental ballistic missiles and submarine-based missiles, whereas the general forces would be extremely exhausted in the border combats. In the long run, even if the aggression would be stopped after the majority of the Chinese are killed, our country would be absolutely unprotected against the "Chechen" and the "Balkan" variants both, and even against the first frost of a possible nuclear winter.

## Russia – Ultranationalism Scenario

### Drop in oil prices causes Russian ultranationalism

Newsweek**,** 8-15-2011**,** “Fascist Russia?; The Kremlin plays a dangerous game by pandering to far-right hate groups,” lexis

As Norway's tragedy showed, paranoid and violent minds can lurk in the calmest, most prosperous countries. But the cancer of ultranationalism has found a particularly fertile breeding ground in the frustrations and resentments of young Russians. Belov claims to have predicted his country's future as far back as August 1991. Manezh Square, in the shadow of the Kremlin, was thronged with Russians celebrating the sudden collapse of Soviet communism; to most, the evening marked the birth of Russian democracy. But Belov, who was there with a friend, distributing pamphlets for the anti-Semitic Pamyat organization, says he saw something else. "We knew that these liberals would fail," he says. "And that their failure would fuel our rise--the rise of the right." Twenty years later, at least half of that apocalyptic vision has come true. Russia's liberals have indeed failed; Russia is now ruled by an authoritarian clique of former KGB men. And Belov may also have accurately foreseen the triumph of the far right. On the surface, a decade of high oil prices has brought ordinary Russians rising living standards and a semblance of political stability. But even the Kremlin's closest allies fear that when oil prices eventually fall and the tide of easy money recedes, the ugly reality of an angry, fascist Russia could be revealed.

### Ends the world

Victor Israelyan, 1998, For almost 50 years, Victor Israelyan was a Soviet ambassador, diplomat, arms control negotiator, and leading political scientist, Washington Quarterly, Winter

The first and by far most dangerous possibility is what I call the power scenario. Supporters of this option would, in the name of a "united and undivided Russia," radically change domestic and foreign policies. Many would seek to revive a dictatorship and take urgent military steps to mobilize the people against the outside "enemy." Such steps would include Russia's denunciation of the commitment to no-first-use of nuclear weapons; suspension of the Strategic Arms Reduction Treaty (START) I and refusal to ratify both START II and the Chemical Weapons Convention; denunciation of the Biological Weapons Convention; and reinstatement of a full-scale armed force, including the acquisition of additional intercontinental ballistic missiles with multiple warheads, as well as medium- and short-range missiles such as the SS-20. Some of these measures will demand substantial financing, whereas others, such as the denunciation and refusal to ratify arms control treaties, would, according to proponents, save money by alleviating the obligations of those agreements. In this scenario, Russia's military planners would shift Western countries from the category of strategic partners to the category of countries representing a threat to national security. This will revive the strategy of nuclear deterrence -- and indeed, realizing its unfavorable odds against the expanded NATO, Russia will place new emphasis on the first-use of nuclear weapons, a trend that is underway already. The power scenario envisages a hard-line policy toward the CIS countries, and in such circumstances the problem of the Russian diaspora in those countries would be greatly magnified. Moscow would use all the means at its disposal, including economic sanctions and political ultimatums, to ensure the rights of ethnic Russians in CIS countries as well as to have an influence on other issues. Of those means, even the use of direct military force in places like the Baltics cannot be ruled out. Some will object that this scenario is implausible because no potential dictator exists in Russia who could carry out this strategy. I am not so sure. Some Duma members -- such as Victor Antipov, Sergei Baburin, Vladimir Zhirinovsky, and Albert Makashov, who are leading politicians in ultranationalistic parties and fractions in the parliament -- are ready to follow this path to save a "united Russia." Baburin's "Anti-NATO" deputy group boasts a membership of more than 240 Duma members. One cannot help but remember that when Weimar Germany was isolated, exhausted, and humiliated as a result of World War I and the Versailles Treaty, Adolf Hitler took it upon himself to "save" his country. It took the former corporal only a few years to plunge the world into a second world war that cost humanity more than 50 million lives. I do not believe that Russia has the economic strength to implement such a scenario successfully, but then again, Germany's economic situation in the 1920s was hardly that strong either. Thus, I am afraid that economics will not deter the power scenario's would-be authors from attempting it. Baburin, for example, warned that any political leader who would "dare to encroach upon Russia" would be decisively repulsed by the Russian Federation "by all measures on heaven and earth up to the use of nuclear weapons." n10 In autumn 1996 Oleg Grynevsky, Russian ambassador to Sweden and former Soviet arms control negotiator, while saying that NATO expansion increases the risk of nuclear war, reminded his Western listeners that Russia has enough missiles to destroy both the United States and Europe. n11 Former Russian minister of defense Igor Rodionov warned several times that Russia's vast nuclear arsenal could become uncontrollable. In this context, one should keep in mind that, despite dramatically reduced nuclear arsenals -- and tensions -- Russia and the United States remain poised to launch their missiles in minutes. I cannot but agree with Anatol Lieven, who wrote, "It may be, therefore, that with all the new Russian order's many problems and weaknesses, it will for a long time be able to stumble on, until we all fall down together." n12 There are signs indicating that this scenario is emerging. The new military doctrine has actually reversed the pledge never to use nuclear weapons first. Earlier this year, Ivan Rybkin, secretary of Russia's Security Council, said, "Everyone must know that in case of a direct challenge our response will be fully fledged, and we are to choose the use of means." n13 Later, in an interview, he said that parliamentary ratification of START II has become "almost impossible." n14 The Duma has again postponed the ratification of the Chemical Weapons Convention, and Russian military planners are claiming that the only feasible military response to NATO expansion is the redeployment of Russian tactical nuclear weapons closer to Russia's borders.

## \*\*\*Libya\*\*\*

## Libya – Terrorism

### Libyan instability allows Al-Qaeda to acquire MANPADs

Alex Wilner, 11-30-2011, Senior Researcher at ETH-Zurich and a Macdonald-Laurier Institute Fellow, “Halting al Qaeda’s African rebound”, http://www.troymedia.com/blog/2011/11/30/halting-al-qaeda%E2%80%99s-african-rebound-part-3/

For AQIM, Libya poses a unique opportunity. Numerous accounts suggest that AQIM took advantage of the civil war to help itself to Colonel Gaddafi’s weapons stockpiles that were “liberated” by anti-government forces. In April 2011, Idriss Deby, President of Chad, noted that he was “100 per cent” certain that AQIM had pillaged military caches in eastern Libya and acquired heavy weapons. His assertion was repeated by the President of Niger and various Algerian officials and later confirmed, in November 2011, by AQIM itself. Mokhtar Belmokhtar, one of AQIM’s leaders, told Mauritanian reporters that “it was perfectly natural” that AQIM had “acquired Libyan weapons.” Of greatest concern is Libya’s stockpile of shoulder-launched anti-aircraft weapons, often referred to as MANPADS (or man-portableair defense systems). These weapons are light-weight, transportable, and, in the wrong hands, can be used to shoot down commercial airlines. U.S. government estimates suggest that Gaddafi amassed roughly 20,000 of these rockets. Even if only a handful of these weapons reach al Qaeda, a repeat of its 2002 attack in Mombasa, Kenya, in which two shoulder-launched missiles were fired against an Israeli-owned charter plane taking off from Moi International Airport, remains a distinct possibility. And while U.S. officials have predicted that most of Libya’s unsecured MANPADS are still in the country, the Israelis are not taking any chances. In November 2011, Israeli officials said they were accelerating a program to equip *all* commercial jets flown by El Al and two other Israeli airline companies with locally made anti-missile defence systems that can “blind” heat-seeking missiles with lasers. The Israeli government is expected to foot the $1.5 million bill the program will cost.

### MANPAD prolif causes Regional conflict

Andrew Drwiega, 12-6-2011, Senior defense journalist with a particular focus on military rotorcraft, editor of *Defence Helicopter* for seven years, BA (Hons) Degree in War Studies from Sunderland University, a member of several associations including the Army Aviation Association of America (Quad-A), Royal United Services institute and the Air Power Association, “Libya’s MANPADs Legacy”, http://www.aviationtoday.com/rw/training/military/Libyas-MANPADs-Legacy\_75305.html

There is an understanding that government agencies have been working very hard behind the scenes to ensure that this kind of weapon does not make it into the hands of the Taliban or al Qaeda. There have been a variety of ‘sting’ operations to take these weapons out of the hands of arms dealers. The old stock of SAMs, especially Stingers, that were given to the Mujahideen to fight the Russians during their occupation of Afghanistan, were largely thought to have degraded in their capability. However, the ability to control the dissemination of MANPADS to terrorist groups and counter-insurgents seems to have been blown open by recent events in Libya where potentially thousands of MANPADS have been stolen and potentially shipped out of the country. According to recent media reports, Libya had an estimated 20,000 surface-to-air missiles before the February uprising began, one of the largest national stocks internationally. An untold number have reportedly already been stolen from unguarded warehouses during and immediately after the struggle for independence from Col. Gaddafi. In recent articles Con Coughlin, a writer in the *British Sunday Telegraph* newspaper, suggested that an Iranian Quds Force team (a paramilitary wing of Iran’s Revolutionary Guards) “… traveled to Libya following the overthrow of the Gaddafi regime and smuggled hundreds of surface-to-air weapons out of the country.” He cites military intelligence officers in Libya who have indicated that the stolen arms could “include sophisticated Russian-made SA-24 missiles that were sold to Libya in 2004. The missile can shoot down aircraft flying at 11,000 feet, and is regarded as the Russian equivalent of the American ‘stinger’ missiles.” While the primary threat is thought to be terrorist acts against western civilian aircraft, there is also the question of how widespread the proliferation of these weapons could be. As Iran is an ally of Sudan (where it is presumed many of the stolen weapons are being kept in the short term), and the Iranian Revolutionary Guards are suspected of training Islamic terrorist groups there, the prospect of weapons getting into the hands of terrorists is very real. Likewise, security professionals believe that al Qaeda may also have been able to organize a similar kind of theft. “I think the probability of al-Qaeda being able to smuggle some of these stinger-like missiles out of Libya is probably pretty high,” said Richard Clarke, former White House National Security Advisor, in a September 2011 interview with *ABC News*. If that turns out to be the case, and with turmoil blighting countries such as Egypt to monitor al Qaeda sympathizers there, the case of smuggling the weapons into Afghanistan can be made. If MANPADS do find their way into Afghanistan then it would rapidly change the whole operational balance and military strategy. It already looks likely that, as in Iraq, when the U.S., British and ISAF ground forces pull out of Afghanistan around the end of 2014/15, many elements of air support will have to stay behind to assist the national Afghan forces, who have none of the elements in place to be self supporting in air power. If the threat of ground-to-air missiles increases significantly, and with a corresponding reduction in the numbers of trained troops that can react to that threat, a very dangerous scenario could quickly develop where high-threat/no-fly zones begin appearing over Afghanistan. That could give al-Qaeda and the Taliban just the opportunity to strengthen and reorganize once again in the Provinces, with dire consequences for the Karzai government.

## Libya – Regional Arms

### Stability key to Libyan disarmament and prevent regional arms explosion

ConwayWaddington,12-19-2011**,** Pursuing a PhD through the University of Johannesburg. My thesis examines the role of resource scarcity, specifically water, in shaping normative approaches to contemporary and future warfare. I completed an MA at the University of KwaZulu-Natal, examining the potential role(s) of private military and security contractors in peacekeeping activities. I taught various business ethics related courses for the School of Management Studies at UKZN from 2005 to 2011, <http://www.consultancyafrica.com/index.php?option=com_content&view=article&id=917:the-arms-proliferation-threat-of-post-gaddafi-libya-&catid=60:conflict-terrorism-discussion-papers&Itemid=265>

The National Transitional Council that currently governs Libya is, in fact, merely the overseer of a collection of loosely aligned committees, distributed across the country and separated by a range of geographic, ideological, religious, and tribal allegiances. At the local level then, there exists the threat that post-conflict recovery in Libya could collapse into violence; a possibility greatly enhanced by the vast amounts of unsecured weaponry scattered around the country, often in the hands of groups of fighters who are waiting to see what the post-Gadaffi future holds before they decide to hand over their weapons. Critical post-conflict processes of disarmament, demobilisation, and reintegration (DDR) are hampered by the lack of cohesion within the NTC and will not be easy to achieve without continued international support. Regional stability is also threatened by proliferation of weaponry, particularly in the Sahel region. Libya shares land borders with Algeria, Chad, Egypt, Niger, Sudan, and Tunisia. Given the enormous scale of these borders, the remote nature of the terrain, and the generally poor capabilities of the countries in the region, border security is extremely difficult to ensure. The political makeup of the region also lends itself to insurrections and allows the growth of non-state actors such as Al Qaeda in the Islamic Mahgreb (AQIM). The terrorist organisation threat taken together with the unknown status of Libya’s MANPADs has garnered the bulk of Western (media) attention. Not only does AQIM stand to gain from the availability of weapons, munitions and other material, but so too do other non-state organisations such as Al Shabaab in Somalia and Boko Haram in Nigeria. General Carter Ham of AFRICOM has suggested that Boko Haram might have begun cooperating; this is signified by declarations by AQIM leaders for support of Boko Haram, along with reports of cross-training efforts and tactical changes by Boko Haram to emulate AQIM and Al Shabaab.(14)

## Libya – Key to US Heg

### Failed transition in Libya will destroy American and allied credibility and increase risk of terrorism

CFR, 2011**,** Center for Foreign Relations, “Post-Qaddafi Instability in Libya”, p. 5

A failed transition leading to chaos, breakup of the Libyan state that sets an unwelcome precedent elsewhere, or restoration of a dictatorship would all damage American and allied credibility and likely also cause major problems for the United States’ European allies, including shortfalls in energy supplies, loss of major investments, and a continuing refugee flow. Refugees could also cause problems in Tunisia, Egypt, and the rest of the Mediterranean. Failure could thus have indirect but unwelcome effects on the United States. Failure could also produce a state prepared to harbor international terrorists, as Qaddafi himself once did, but there is little indication thus far that those supporting the rebellion would be inclined in that direction.

## Libya – Key to European Econ

### Collapse of Libyan oil causes European economic decline

Jason Pack, 3-18-2011**,** researches Libyan history at St Catherine's College, Cambridge, and is president of Libya-Analysis.com, writes for Foreign Policy.com, “Libya is Too Big To Fail”, <http://www.foreignpolicy.com/articles/2011/03/18/libya_is_too_big_to_fail>

Much as we might pretend otherwise, oil is unquestionably part of the equation here. In the words of Armand Hammer, the late founder of Occidental Petroleum, Libya's oil is "the world's only irreplaceable oil." What makes Libyan oil irreplaceable is its proximity to Europe, the ease of its extraction, and the sweetness of its crude. Because many refineries in Italy and elsewhere are built to deal with sweet Libyan crude, they cannot easily process the heavier Saudi crude that would inevitably replace a Libyan production shortfall. Since détente with Libya began in 2003, Western companies in the form of Repsol, Wintershall, Total, Eni, OMV, Shell, the Oasis Group, Chevron, Marathon, ExxonMobil, and BP have either rushed into Libya or intensified their existing operations. Those with political connections to the Libyan regime that predate sanctions have tended to fare better than others. All have an enormous stake in not losing their vast investments and being replaced by the Chinese, Indians, and Russians, were Libya to become a pariah state. Most crucially, though Europe would be hit hardest if Libyan production were to vastly diminish due to ongoing unrest or stagnate due to a lack of future investment, low production totals would have sustained negative effects on both the fragile world economy and the Libyan people.

## \*\*\*Saudi Arabia\*\*\*

### Failure to stop political unrest in Saudi Arabia will unleash nuclear weapon use and terrorism

Shashank Joshi, Doctoral student at Harvard University, and a Research Fellow of the Royal United Services Institute, 4-13-2012, *The Hindu* <http://www.thehindu.com/opinion/op-ed/article3308145.ece>

A sectarian, geopolitical and strategic cold war is unfolding between Saudi Arabia, protector of the Sunni Arab order, and Iran, a Shia Persian revolutionary power with a mission to subvert that status quo. The battlefields are Syria and Palestine, Afghanistan and Iraq. For India, the stakes are high.¶ Saudi-Iranian rivalry has ebbed and flowed for decades, but two developments — the acceleration of Iran's nuclear ambitions and the Arab Spring — have sharpened the antagonism. In the coming years, that will likely push Saudi Arabia closer to Pakistan and exacerbate threats to India.¶ THREE STRANDS¶ First, consider that the crisis over Iran's nuclear programme is unlikely to be resolved by this month's talks, given the inflexible positions held by each side. If Iran is attacked, it will respond by rushing for a bomb. If it isn't attacked, it will drift towards the threshold of weapons status (much like India in the 1970s). Either way, the Saudis will feel the need to hedge — and they will turn to Pakistan, whose nuclear programme they funded and fostered for years.¶ Both Pakistan and Saudi Arabia have reasons not to flout American concerns, and each would proceed with caution. But it is plausible that Pakistan might covertly transfer nuclear technology, engineers and even fissile material to its Saudi Arabian patrons — buying itself some diplomatic clout in return.¶ Second, Saudi Arabia remains shaken by the Arab Spring. The country's Shia-dominated Eastern Province is growing restive. Riyadh is also paranoid that Shia Iran is meddling there and in other Sunni Arab regimes like Bahrain.¶ That's why there are reportedly 10,000 serving and retired Pakistani military personnel in Bahrain — including a battalion of the Azad Kashmir Regiment. In the 1980s, Pakistan had tens of thousands of soldiers, sailors and airmen in Saudi Arabia — including an entire division and two armoured and two artillery brigades. These reliable Sunni forces are still seen in Riyadh as a crucial instrument of repression.¶ Saudi Arabia is not immune from the unrest that swept the Arab world last year. If oil prices fall, it'd struggle to pay for the massive public spending programmes it introduced last year in an effort to stave off discontent. Its refusal to undertake real political reform, and the poisonous anti-Shia rhetoric it has ramped up to vilify protesters, could further radicalise young Saudis.¶ If this resulted in widespread disorder, the regime would depend on Pakistan to send manpower and military expertise.¶ In fact, it's highly likely that contingency plans are already in place.¶ Even if there's little chance of Pakistani nuclear weapons on Saudi soil, the prospect of Pakistani access to Saudi airbases and missile facilities should be cause for Indian concern.¶ Finally, there's a third strand to the Saudi-Pakistan nexus: religion. Whenever Saudi rulers have felt under threat they shore up their legitimacy by looking to the ulema. In 1979, the Iranian revolution and the siege of Mecca spooked the monarchy into giving more money and power to the clerics. That fuelled the growth of violent Sunni extremism over the subsequent decade — and in South Asia in particular. Last year, similarly anxious to bolster their Islamic credentials, the regime responded in the same fashion — funnelling a part of its $120 billion spending package to the religious establishment and reaching out to some of the most extreme strands of regional Islamist movements.¶ That will have profound and pernicious effects not just in the Middle East and North Africa, but also in the jihadist heartlands of Punjab and even within India. Sunni terrorist groups, including Pakistan-sponsored outfits like the Lashkar-e-Taiba, will have new resources and political allies. That throws up fiendishly difficult intelligence and counterterrorism challenges for Delhi.¶ Saudi Arabia's former intelligence chief once claimed that his country's relationship to Pakistan was “probably one of the closest relationships in the world between any two countries.” Whether or not that's hyperbole, it's going to get closer. Both are growing apart from the United States. Riyadh was alarmed over the way in which Washington dumped Egypt's Hosni Mubarak, and Islamabad is not blind to the growing exasperation with its policies.

### Nuclear terrorism causes nuclear war and extinction

The Guardian, 3-31-2008, Project Syndicate, “The Nuclear Risk,” http://www.guardian.co.uk/commentisfree/2008/mar/31/newnuclearrisk

Vital pillars of the old arms-control and anti-proliferation regime have either been destroyed - as was the case with the anti-ballistic missile (ABM) treaty - or substantially weakened, as with the nuclear non-proliferation treaty (NPT). Responsibility for this lies largely with the Bush administration, which, by terminating the ABM treaty, not only weakened the international control systems for nuclear weapons, but also sat on its hands when confronted with the NPT's imminent collapse. At the beginning of the 21st century, proliferation of military nuclear technology is one of the major threats to humanity, particularly if this technology falls into terrorists' hands. The use of nuclear weapons by terrorists would not only result in a major humanitarian tragedy, but also would most likely move the world beyond the threshold for actually waging a nuclear war. The consequences would be horrific.

## \*\*\*United States\*\*\*

### Rising oil prices cause U.S. econ collapse

Robert Zubrin, Ph. D in nuclear engineering from the University of Washington, 3-17-2011, “Rising oil prices threaten economic crash,” The Washington Times

In recent days, oil prices have climbed above $100 per barrel. As chaos spreads through the Arab world, we could soon see much worse.¶ According to recent testimony given to Congress by Federal Reserve Chairman Ben S. Bernanke, the current soaring oil prices are no reason for concern. According to the stock market, which has dropped hundreds of points each time oil prices have edged up another dollar or two, the situation is a five-alarm emergency. Who is right? The likely impact of a new oil-price rise is shown in the graph below, which compares oil prices (adjusted for inflation to 2010 dollars) to the U.S. unemployment rate from 1970 to the present. It can be seen that every oil-price increase for the past four decades, including those in 1973, 1979, 1991, 2001 and 2008, was followed shortly afterward by a sharp rise in American unemployment.¶ The distress to American workers caused by such events is manifest, but the economic damage goes far beyond the impact on the unemployed. A sustained oil price of $100 per barrel will add $520 billion to the U.S. balance-of-trade deficit. Furthermore, there is a direct and well-established relationship between unemployment rates and the rates of mortgage defaults. Thus, the $130-per-barrel oil shock of 2008 didn’t just throw 5 million Americans out of work, it made many of them default on their home payments and thus destroyed the value of the mortgage-backed securities held by America’s banks. This, in turn, threatened a general collapse of the financial system, with a bailout bill for $800 billion sent to the taxpayers as a result. But that is not all. The destruction of spending power of the unemployed and the draining of funds from everyone else to meet the direct and indirect costs of high oil prices reduce consumer demand for products of every type, thereby wrecking retail sales and the industries that depend upon them.

### Econ decline causes great power wars

Zalmay Khalilzad, was the United States ambassador to Afghanistan, Iraq, and the United Nations during the presidency of George W. Bush and the director of policy planning at the Defense Department from 1990 to 1992, 2-8-2011, "The Econom and National Security" www.nationalreview.com/blogs/print/259024

Today, economic and fiscal trends pose the most severe long-term threat to the United States’ position as global leader. While the United States suffers from fiscal imbalances and low economic growth, the economies of rival powers are developing rapidly. The continuation of these two trends could lead to a shift from American primacy toward a multi-polar global system, leading in turn to increased geopolitical rivalry and even war among the great powers. The current recession is the result of a deep financial crisis, not a mere fluctuation in the business cycle. Recovery is likely to be protracted. The crisis was preceded by the buildup over two decades of enormous amounts of debt throughout the U.S. economy — ultimately totaling almost 350 percent of GDP — and the development of credit-fueled asset bubbles, particularly in the housing sector. When the bubbles burst, huge amounts of wealth were destroyed, and unemployment rose to over 10 percent. The decline of tax revenues and massive countercyclical spending put the U.S. government on an unsustainable fiscal path. Publicly held national debt rose from 38 to over 60 percent of GDP in three years. Without faster economic growth and actions to reduce deficits, publicly held national debt is projected to reach dangerous proportions. If interest rates were to rise significantly, annual interest payments — which already are larger than the defense budget — would crowd out other spending or require substantial tax increases that would undercut economic growth. Even worse, if unanticipated events trigger what economists call a “sudden stop” in credit markets for U.S. debt, the United States would be unable to roll over its outstanding obligations, precipitating a sovereign-debt crisis that would almost certainly compel a radical retrenchment of the United States internationally. Such scenarios would reshape the international order. It was the economic devastation of Britain and France during World War II, as well as the rise of other powers, that led both countries to relinquish their empires. In the late 1960s, British leaders concluded that they lacked the economic capacity to maintain a presence “east of Suez.” Soviet economic weakness, which crystallized under Gorbachev, contributed to their decisions to withdraw from Afghanistan, abandon Communist regimes in Eastern Europe, and allow the Soviet Union to fragment. If the U.S. debt problem goes critical, the United States would be compelled to retrench, reducing its military spending and shedding international commitments. We face this domestic challenge while other major powers are experiencing rapid economic growth. Even though countries such as China, India, and Brazil have profound political, social, demographic, and economic problems, their economies are growing faster than ours, and this could alter the global distribution of power. These trends could in the long term produce a multi-polar world. If U.S. policymakers fail to act and other powers continue to grow, it is not a question of whether but when a new international order will emerge. The closing of the gap between the United States and its rivals could intensify geopolitical competition among major powers, increase incentives for local powers to play major powers against one another, and undercut our will to preclude or respond to international crises because of the higher risk of escalation. The stakes are high. In modern history, the longest period of peace among the great powers has been the era of U.S. leadership. By contrast, multi-polar systems have been unstable, with their competitive dynamics resulting in frequent crises and major wars among the great powers. Failures of multi-polar international systems produced both world wars. American retrenchment could have devastating consequences. Without an American security blanket, regional powers could rearm in an attempt to balance against emerging threats. Under this scenario, there would be a heightened possibility of arms races, miscalculation, or other crises spiraling into all-out conflict. Alternatively, in seeking to accommodate the stronger powers, weaker powers may shift their geopolitical posture away from the United States. Either way, hostile states would be emboldened to make aggressive moves in their regions. As rival powers rise, Asia in particular is likely to emerge as a zone of great-power competition. Beijing’s economic rise has enabled a dramatic military buildup focused on acquisitions of naval, cruise, and ballistic missiles, long-range stealth aircraft, and anti-satellite capabilities. China’s strategic modernization is aimed, ultimately, at denying the United States access to the seas around China. Even as cooperative economic ties in the region have grown, China’s expansive territorial claims — and provocative statements and actions following crises in Korea and incidents at sea — have roiled its relations with South Korea, Japan, India, and Southeast Asian states. Still, the United States is the most significant barrier facing Chinese hegemony and aggression. Given the risks, the United States must focus on restoring its economic and fiscal condition while checking and managing the rise of potential adversarial regional powers such as China. While we face significant challenges, the U.S. economy still accounts for over 20 percent of the world’s GDP. American institutions — particularly those providing enforceable rule of law — set it apart from all the rising powers. Social cohesion underwrites political stability. U.S. demographic trends are healthier than those of any other developed country. A culture of innovation, excellent institutions of higher education, and a vital sector of small and medium-sized enterprises propel the U.S. economy in ways difficult to quantify. Historically, Americans have responded pragmatically, and sometimes through trial and error, to work our way through the kind of crisis that we face today. The policy question is how to enhance economic growth and employment while cutting discretionary spending in the near term and curbing the growth of entitlement spending in the out years. Republican members of Congress have outlined a plan. Several think tanks and commissions, including President Obama’s debt commission, have done so as well. Some consensus exists on measures to pare back the recent increases in domestic spending, restrain future growth in defense spending, and reform the tax code (by reducing tax expenditures while lowering individual and corporate rates). These are promising options. The key remaining question is whether the president and leaders of both parties on Capitol Hill have the will to act and the skill to fashion bipartisan solutions. Whether we take the needed actions is a choice, however difficult it might be. It is clearly within our capacity to put our economy on a better trajectory. In garnering political support for cutbacks, the president and members of Congress should point not only to the domestic consequences of inaction — but also to the geopolitical implications. As the United States gets its economic and fiscal house in order, it should take steps to prevent a flare-up in Asia. The United States can do so by signaling that its domestic challenges will not impede its intentions to check Chinese expansionism. This can be done in cost-efficient ways. While China’s economic rise enables its military modernization and international assertiveness, it also frightens rival powers. The Obama administration has wisely moved to strengthen relations with allies and potential partners in the region but more can be done. Some Chinese policies encourage other parties to join with the United States, and the U.S. should not let these opportunities pass. China’s military assertiveness should enable security cooperation with countries on China’s periphery — particularly Japan, India, and Vietnam — in ways that complicate Beijing’s strategic calculus. China’s mercantilist policies and currency manipulation — which harm developing states both in East Asia and elsewhere — should be used to fashion a coalition in favor of a more balanced trade system. Since Beijing’s over-the-top reaction to the awarding of the Nobel Peace Prize to a Chinese democracy activist alienated European leaders, highlighting human-rights questions would not only draw supporters from nearby countries but also embolden reformers within China. Since the end of the Cold War, a stable economic and financial condition at home has enabled America to have an expansive role in the world. Today we can no longer take this for granted. Unless we get our economic house in order, there is a risk that domestic stagnation in combination with the rise of rival powers will undermine our ability to deal with growing international problems. Regional hegemons in Asia could seize the moment, leading the world toward a new, dangerous era of multi-polarity.

## \*\*\*Jordan\*\*\*

### Fluctuating oil prices causes Jordan’s economy to collapse – 1980s collapse proves

Marwan A. Kardoosh, Director of Research, Jordan Centre for Public Policy Research and Dialogue, 2-23-05, “Jordan’s Susceptibility To Shocks Arising From Regional Developments,”

Developments in the second half of the 1980s clearly demonstrated Jordan’s economic dependence on other countries in the region. A rapid decline in the price of oil resulted in a regional economic slump. The slowdown in Gulf economies had severe repercussions on the Jordanian economy, which suffered from a substantial fall in aid and workers’ remittances, as well as in exports to the six Gulf Co-operation Council (GCC) economies. Deficits in the external current account and in the government budget widened. In 1988/89 the Jordanian economy collapsed under the burden of debt and a banking crisis.

### **Jordan’s economic stability is key to the stability of the middle east**

Embassy of Japan in Jordan, No Date, “Assistance to Jordan,” Embassy of Japan, http://www.jordan.emb-japan.go.jp/eng\_page/oda/en\_region.htm

Jordan has been directly involved and actively engaged in the Middle East Peace Process and Reconstruction of Iraq. It is unquestionable that Jordan ’s political and economic stability is crucial to peace in the Middle Eastern region. As establishing peace in the Middle East is very important for Japan as well, Japan supported the projects with cooperation of Jordan to bring benefit to the Middle East countries.

## **\*\*\*Iran\*\*\***

### **Fluctuating oil prices collapses the Iranian economy**

Mohammad Reza Farzanegan and Gunther Markwardt, professors of business and economics at Dresden University, 8-27-2007, “The Effects of Oil Price Shocks on the Iranian Economy,” http://www.ecomod.org/files/papers/600.pdf

While increasing oil prices mostly cause a significant decline in domestic output, decreasing oil prices evolve only marginal impact in industrial countries. However, Iran as a developing economy and net oil exporter shows that both positive and negative oil price changes significantly affect the output of the economy. We found evidence that oil price fluctuations are the Achilles' heel of the Iranian economy. The oil revenues are at same time a great opportunity and treat for current and future generations of Iran. The design of best practices for windfall oil funds management must be taken into account by the policymakers of the Iran.

## \*\*\*India\*\*\*

### **Fluctuating oil prices lead to Indian economic collapse**

The Economic Times, 10-20-2011, “Fluctuating oil prices a bane for Indian economy: Jaipal Reddy,” The Economic Times, <http://articles.economictimes.indiatimes.com> /2011-10-20/news/30301541\_1\_oil-prices-duty-on-crude-oil-petrol-prices

Emphasising that fluctuating oil prices are detrimental for the Indian economy, Petroleum and Natural Gas Minister S. Jaipal Reddy has said the idea of dual pricing for widely used diesel cannot be implemented because of it's impractical approach. Giving details of the fluctuating oil prices, Reddy said that such drastic ups and lows have major consequences lined up for not only the oil sectors but also the Indian economy as a whole. "You know for whatever reasons, it (oil prices) went up to 145 dollars per barrel and sharply fell within a few weeks to 35- 36 dollars. For the first time in the history oil prices are being rolling so high and so low so it has major consequences not only for the oil sector for Indian economy as a whole," Reddy told the media here.

## **\*\*\*Europe\*\*\***

### Fluctuating oil prices lead to European economic collapse

Kyles Humphrey, freelance journalist, 11-27-2011, “Impact Of Fluctuating Oil Prices On Europe Debt Crisis,” Investment | Survival | Economic Collapse News, <http://www.seoblox.com/impact-of-fluctuating-oil-prices-on-europe-debt-crisis/>

The article provides information about fluctuating oil prices and its impact on European debt crisis.¶ In an attempt to recoil financial market and effort to manage a sovereign debt crisis, oil prices climbed considerably in the New York. This alteration was helpful as Europe can control oil prices and curb oil demand to mange its economy.¶ To cope up with condition like the biggest quarterly decline in 2008, the step has been taken to control the global financial crisis. Timothy F. Geithner, the United States treasury Secretary said that European governments will try to take sustainable measures to reduce debit woes after being forced at international meetings in Washington. According to the BP PLc’s annual Statistical Review of World Energy, the European Union reported 16% of global oil demand in the year 2010. Ric Spooner, a chief market analyst at CMC Markets in Sydney, said that a meaning plan has the power to restore confidence to the world. Hence, this provides a vision to look everything at reasonable prices that also include crude oil.¶ The oil prices added $ 2 to $ 82.24 a barrel as depicted by electronic trading on the New York Mercantile Exchange, as well declined at $ 82.02 as per Sydney time review. In the quarter months, the sequent drop of 14% has been seen in the prices on oil. This is one of the biggest downfalls after subsequent three months in December 2008. Oil prices have dropped 8% this month as well followed by 10% decline in Sept. 2011.¶ According to the London-based ICE Futures Europe exchange, Brent futures climbed $ 1.42 to $ 105.32 a Barrel. However, the European benchmark contract has dropped 6% this quarter months and traded at a premium of $ 23.34. Mark Pervan, the head of commodity research at Australia & New Zealand Banking Group Ltd. in Melbourne, said that Crude benchmarks have been affected by the rally in equity markets and a softer U.S. dollar. Oil price kept on fluctuating because of uncertainty in Europe, it stuck at specific limit after decline in 2nd week of Sept 2011. On ABC Television show World News with Diane Sawyer, Geithner said that European governments told to leaders that their European debt crisis is pinching global growth. With the significant changes as described by the global market, the Standard & Poor’s 500 Index rose 2.3 percent in New York. The MSCI Asia Pacific Index added 2.9 percent in Tokyo. However, the Dollar Index dropped for a second day. Such a type of alteration has disturbed the global solidity and stability. Kyles Humphrey is a knowledgeable journalist in oil related fields, who frequently writes articles related to oil prices & indexes and crude oil including tips on investment in oil. Please visit oil.com for more details.

# \*\*\*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 econo

## 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.