# Neg

## Uniqueness

### Global Oil Demand High

#### Global Oil Demand Will Rise in 2012

Oil and Gas Journal 12 (Oil & Gas Journal, IEA: Global Oil Demand Growth Accelerating,5/21/12,http://www.ogj.com/articles/print/vol-110/issue-5b/general-interest/iea-global-oil-demand-growth-accelerating.html)DD

After posting near-zero annual growth in the fourth quarter of 2011, global oil demand growth will gradually accelerate throughout 2012, culminating in an increase of 1.2 million b/d by this year's final quarter, the International Energy Agency said in its latest monthly oil market report. Global oil consumption is set to rise by 800,000 b/d this year to 90 million b/d, unchanged from the agency's previous report, with gains in developing countries more than offsetting declining demand within countries of the Organization for Economic Cooperation and Development.

### Oil Prices Sustainable

#### Oil Prices are sustainable- will remain elevated

Zhu 12 (Winnie, reporter at Bloomberg, July 5, “Brent Oil Exceeding $100 A Barrel ‘Sustainable,’ Mirae Says” <http://www.bloomberg.com/news/2012-07-05/brent-oil-exceeding-100-a-barrel-sustainable-mirae-says-1-.html> TM)

Brent crude’s rebound to more than $100 a barrel is “sustainable” given China’s record-high import demand and Saudi Arabia (SABIC)’s reductions in export volumes, according to Mirae Asset Securities. Escalating geopolitical tensions in Iran following the official start of the European Union embargo on July 1 should add further support for rising oil prices in the third quarter, Gordon Kwan, the Hong Kong-based head of energy research at Mirae Asset Securities, said today in a research note. Brent crude rose 3.4 percent to $100.68 a barrel on July 3, the highest close in more than a month, and traded as high as $100.95 yesterday in London before retreating to a close of $99.77 in London. Futures for August rose as much as 20 cents a barrel today on the ICE Futures Europe exchange. “Despite the global economic turmoil, we believe oil prices will stay elevated due to supply constraints. The gradual withdrawal of Iranian volumes, together with increased third- quarter summer demand, should help Brent crude price find support at above $100 a barrel,” Kwan said in the report. OPEC oil production fell from the highest level in more than three years as Iranian output dropped to a 20-year low last month, according to a Bloomberg survey. A labor strike in Norway, geopolitical tension between Turkey and Syria and the hurricane season in the Gulf of Mexico may lower global oil supply by 1 million barrels a day during North America’s summer driving season, according to Kwan. Output in Iran, the Organization of Petroleum Exporting Countries’ second-biggest producer after Saudi Arabia, declined by 65,000 barrels to 3.16 million barrels a day in June, the lowest since June 1992, the Bloomberg survey showed. The Saudis cut output by 70,000 barrels a day to 9.83 million from 9.9 million barrels in May, the highest level since at least 1989.

#### Oil prices sustainable- the world economy is more resilient

Farchy 12 (Jack, writer for the Financial Times, May 28, “World more resilient to oil price rises” <http://www.ft.com/intl/cms/s/0/11c38c74-a8e4-11e1-b085-00144feabdc0.html#axzz20MkRZzeV> TM)

The world economy has become more resilient to rising oil prices, according to the International Monetary Fund, although it warned that a supply shock could still derail global growth. In new research published on its website, the IMF argued that the world had become less sensitive to a jump in oil prices thanks to more proactive monetary policy, increasing energy efficiency and greater diversity of energy sources among importing countries. “During the current economic downturn, the price of oil hit over $100 a barrel and prices rose close to levels only seen in the 1970s [in real terms],” the IMF said. “But the increases have not triggered global recessions as they did in the 1970s and 80s.” High oil prices have become a priority for global policy makers as they wrestle with weak economic growth and the possible disruption of supplies from Iran, the world’s third-largest exporter. Leaders of the G8 nations this month agreed to release oil from their strategic reserves if there is further disruption to supply, saying that “increasing disruptions in the supply of oil to the global market over the past several months […] pose substantial risk to global economic growth”. On Monday, oil prices rose for the third straight session as traders responded to the lack of progress in last week’s negotiations on Iran’s nuclear programme. ICE July Brent crude oil rose 28 cents to $107.11 a barrel, although it remains 12.9 per cent lower than it was at the end of March. The IMF conceded that “large, abrupt price changes remain difficult to absorb, particularly if they come from supply disruptions”. But it noted that recent supply outages – such as the loss of Libya’s oil from the global market during last year’s civil war – have been small relative to the disruptions of the 1970s, such as the Arab oil embargo or the Iranian revolution. Nonetheless, it argued that the global economy had demonstrated greater resilience to rising oil prices in the past few years than in the 1970s. In part, this is because the rally in prices in recent years has been driven by global demand growth rather than supply shocks. But the IMF also drew attention to the greater responsiveness of central banks in controlling inflation expectations when oil prices rise. Moreover, it said, the world’s economies have become more efficient in their energy use and have diversified their energy sources. For example, the US buys crude oil and gasoline from more than 40 countries, the IMF said. Finally, the revenues from oil exports are being reinvested in oil-importing countries, the IMF said, lessening the negative impact of a rise in prices.

#### Oil prices will stay about the same until 2035.

[Graeber](http://oilprice.com/contributors/Daniel-J.-Graeber) 6/26 (Daniel, 6/26/12, senior analyst for oilprice.com, oilprice.com, “No Dark Clouds on Oil Horizon”, <http://oilprice.com/Energy/Crude-Oil/No-Dark-Clouds-on-Oil-Horizon.html>, accessed 7/2)

The U.S. Department of Energy predicted that OPEC will remain in relatively the same position in terms of market share at least through 2035. In terms of the pricing, the DOE's Energy Information Administration said a variety of factors that contribute to a relatively consistent OPEC mean crude oil prices should increase roughly 5 percent per year for the rest of the decade. Meanwhile, the share of renewables increases with U.S. oil production, suggesting a leading economy could retreat from the international market. The recent drastic decline in crude oil prices has sparked a renewed interest in conversations of peak oil. As the 21st century international economy realigns, however, it's not so much a discussion of how much oil is left in the world but where it comes from. The EIA, in its latest report, states that higher costs for non-OPEC supplies, coupled with a constant market share for OPEC, means oil prices should move along at 5 percent per year for the rest of the decade. But that pace slows down after 2020, when oil prices increase at a rate of 1 percent per year through 2035. Using 2010 dollars, oil prices by 2035 should settle at around $145 per barrel.

#### High oil prices here to stay –OPEC budgets.

[Insley](http://dailyresourcehunter.com/author/mattinsley/) 5/22 (Matt, 5/22/12, editor of Dily Resource hunter with expertise in financial markets, “Three Major Stocks Set to Soar from America’s Oil Boom”, <http://www.topstockanalysts.com/index.php/2012/05/22/three-major-stocks-set-to-soar-from-americas-oil-boom/>, accessed 7/2)

A key detriment to the Eurozone is expensive energy — oil in particular. “Oil is a key driver at the heart of the economic dislocations” says Sabine Schels, Senior Director and Global Commodity Strategist at Bank of America Merrill Lynch. And, she continues, “high oil prices [globally] are here to stay for some time.” One reason for continued high oil prices are rising OPEC budgets. To bring one barrel of OPEC oil to market it now costs $80-90 on average, Schels says. You see, the rest of the world isn’t enjoying the same fortune as North America. Instead OPEC producers, as I was told more than once last week, are incurring much higher costs to produce crude. The standard breakeven I’m hearing now is congruent with what Schels quoted above: $80-90 a barrel. So if you think the Saudi sheiks are getting oil for $10 a barrel and selling it for over $100 (at Brent prices), you’re wrong.

Oil prices will stay high – demand.

Roth 12

TRUTH: Price = Supply and Demand Gasoline stations adding a mark up to supply costs do NOT set prices. Prices are established by the market dynamic of consumer demand and manufacturing supply. The price of oil is high right now because incremental world demand is growing faster than the marginal capacity for increasing oil supplies. TRUTH: Gasoline prices will NOT come down Because it is supply and demand that sets the price of gasoline, the price of gasoline will not fall over the long term. Does anyone really think the price of gasoline will be less in 5 years? There are two mega-trend reasons why the long term price for gasoline will be higher: The first is that there are no more “Saudi Arabias.” That means the world no longer has an easy-to-recover, low cost, low risk new pool of oil to harvest. There is still a lot of oil to be recovered but it costs more to do so because of very high risks and costs tied to geopolitical issues and the high potential for causing environmental damage associated with new deposits of oil. The only scenarios where pump prices could fall are a global economic collapse or breakthroughs in biofuel technologies. The second more telling reason why prices will rise over the long term is that world demand for oil is growing faster than incremental new supplies can be delivered. The world is adding a new middle class over the next 20 years that will have a buying power equal to 1.5 times the current U.S. annual Gross Domestic Production. In economics this is called the “Income Effect.” This new middle class is expected to buy more oil even at higher prices because their incomes are higher.

#### Oil prices will not fall – oil companies.

Roth 12 (Bill, 2/24, Business Coach for the U.S. Hispanic Chamber of Commerce Foundation’s, Triple Pundit, “Pump Price Truths: Gas Won’t be Getting Cheaper, and That’s Okay”, <http://www.triplepundit.com/2012/02/pump-price-truths/>, accessed 7/4)

3) Oil companies are not creating higher oil prices. Believe me, at today’s prices they are trying as hard as they can to find more oil. And they are very concerned that higher gasoline prices will permanently erode U.S. demand for oil. But oil prices will not fall over the long term because the ability of oil companies to increase supply lags the incremental increases in the world’s consumer demand. 4) High long-term oil and gasoline prices are not a product of speculative trading. Corrupt trading could cause price volatility and spikes. But the underlying cause for higher prices is that incremental demand is growing faster than the marginal capacity of production.

#### Oil prices will stay high – internal conflict.

Zakaria 12 (Fareed, January 15, PHD from Harvard and host of CNN international affairs, CNN,“Z[akaria: Why oil prices will stay high](http://globalpublicsquare.blogs.cnn.com/2012/01/15/zakaria-why-oil-prices-will-stay-high/)”, <http://globalpublicsquare.blogs.cnn.com/2012/01/15/zakaria-why-oil-prices-will-stay-high/>, accessed 7/4)

Now I think that the economic fundamentals really can't justify oil prices at their current levels. The real driver of high oil is not the stuff you find in the business section of the newspaper - the demand for oil in India and China. It's on the front page: Global politics. You see, traders worry about risk. And the biggest risk to oil supplies is the threat of war in the Persian Gulf. Meanwhile, in Nigeria mass protests are raising worries about the supply of fuel from there. Venezuela is in a slow-motion collapse because of Hugo Chavez's mismanagement. There have also been protests in Russia, the world's top oil producer. And remember the fallout of the Arab Spring - Libya's oil production in 2011 was severely curtailed. Iraq continues to disappoint with its oil output and its recent political tensions certainly haven't made things any better. So a mix of war rhetoric and local troubles in key oil states are factors driving up the price of crude. And that translates to higher prices at the pump. Now that logic suggests that prices will fall when the news calms down.

#### Oil prices will stay high – increased breakeven cost.

Zakaria 12 (Fareed, January 15, PHD from Harvard and host of CNN international affairs, CNN,“Z[akaria: Why oil prices will stay high](http://globalpublicsquare.blogs.cnn.com/2012/01/15/zakaria-why-oil-prices-will-stay-high/)”, <http://globalpublicsquare.blogs.cnn.com/2012/01/15/zakaria-why-oil-prices-will-stay-high/>, accessed 7/4)

But perhaps not. Perhaps oil producers want these sky high prices. Usually the major oil producers understand that keeping prices too high in the short term means people start finding alternatives to oil. They start driving more efficiently; they start looking for alternate energies. But this time, oil states face crucial challenges. Look closer at the Arab Spring. The only oil rich country that has been forced into regime change is Libya. Why? The Gulf states lavish subsidies and salary increases on their citizens. They've upped spending to record levels to suppress any popular discontent. I saw some striking numbers this week: Look at the "break-even" costs for the world's top oil producers. That is the minimum price at which these countries need to sell oil so that they can balance their budgets. Russia now needs oil at $110 a barrel to manage its finances. For Iraq, the number is $100. Even Saudi Arabia now needs oil to trade around $80 a barrel just to balance its budgets. The numbers are also high for Algeria, Qatar, and Oman. Only a decade ago Saudi Arabia was able to balance its budget with oil prices averaging around $25 a barrel. So now it is in these countries' interest to keep oil prices high, which they do by curtailing supply in one way or the other. This is perhaps the most lasting impact of the year of global protest: High oil prices. So, the bottom line is an oil crash seems unlikely. Even though the engines of global growth are sputtering, be prepared for a period of expensive commutes. Maybe it's time to trade in your Escalade for a Prius.

#### Oil prices will stay high – increased cost and decreased supply.

Casey 5/3 (Doug, author of Crisis Investing was #1 on the New York Times bestseller, “10 Reasons Why Oil Prices Will Stay High”, <http://goldnews.bullionvault.com/oil-prices-shale-natural-gas-050320125>, accessed 7/4)

To maintain output levels, producers need to consistently invest huge amounts of money and time in exploration, development of new areas, and engineering and utilizing new technologies to extend oil field lifespans. All of this costs money, and lots of it. Of the Seven Sisters of Declining Exports, six are countries where the oil machine is run by a national oil firm. That means that revenues from oil exports belong to the government...and those governments are stuck between a rock and a hard place. They know they need to direct the oil revenues back into their fields very soon, before they decline beyond the point of repair. In the meantime, production levels continue to fall. Compounding the problem of declining production is the fact that most of these countries have long relied on cheap domestic fuel prices to keep their citizens happy. This has spurred rising consumption in many oil-producing countries, including Saudi Arabia, Iran, Nigeria, United Arab Emirates, Venezuela, and Kuwait. With domestic consumption climbing and production falling, these countries have less oil available for export every year. But here's the hard place: oil export monies make up the vast majority of each government's revenue. They need to sell oil on the international market in order to fund their day-to-day operating expenses. And their operating expenses are sky high: these governments constantly make new social-spending promises to appease their masses; and since their populations continue to grow, these commitments grow larger with each passing day. Venezuela is a prime example. Hugo Chávez owes a big chunk of his popularity to the domestic fuel subsidies that render fuel prices in Venezuela among the lowest in the world – it costs just US$0.18 per gallon to fill up in Venezuela, and that's ridiculously expensive compared to the US$0.05 per gallon it cost a year ago. Yes, that means you could have filled your car for $1 in Caracas. Getting rid of these fuel subsidies would solve part of the problem, but it is simply not doable – it is not just political suicide, but a sure-fire way to incite riots and social unrest. Just a few months ago Nigeria's government tried increasing domestic gas prices; the country rapidly descended into violence as protestors demanded a return to subsidized fuel. The government relented within days. Fuel subsidies are not the only expensive item on many a government's social-spending list. Housing, food, health care, education – these are all burdens that socialist-tending governments take on to cement support. Social spending is a great way to make yourself popular with your citizens, but it is also a great way to bankrupt your country...unless, of course, you can sell oil at high prices to other countries. According to our analysis, OPEC nations need the price of oil to stay above $60 per barrel to pay for all their social programs. In other words, they need $60+ oil to stay in power – and you can be certain they will do everything necessary to make sure this happens. To sum it up: Governments in most of the world's key oil export nations need more money from fewer barrels of oil, and it is a lot easier to hose your international customers than your own citizens. This results in "The Big Pinch."

#### Oil prices will stay high- increased demand.

Casey 5/3 (Doug, author of Crisis Investing was #1 on the New York Times bestseller, “10 Reasons Why Oil Prices Will Stay High”, <http://goldnews.bullionvault.com/oil-prices-shale-natural-gas-050320125>, accessed 7/4)

The world is not awash in oil. On the contrary – we produce only just enough oil to meet global demand. With the world's population growing every day demand continues to rise, making the balance ever tighter. Even the threat of major production cuts of the sort we just discussed – which would surface the moment the oil price fell to $85 per barrel – would be enough to send tremors through the global oil machine and push the price of oil back up. It is not only traders who will react to push prices back up. Countries will jump at the chance to secure oil supplies on the cheap. You see, for the oil-needy nations of the world, having to constantly walk this supply-demand tightrope is far from ideal. Far preferable would be to control enough oil deposits, at home and around the world, to meet national needs. With nation after nation coming to this realization, the race is on to secure energy supplies. China is the biggest player in this arena. Armed with a massive bank account, the Chinese are seizing every chance they get to buy major deposits. If the price of oil starts to slide, as Porter suggests it will, the value of major oil projects will decline as well and the Chinese will act, buying up any reduced-price oil deposit they can find. Acquisition activity like that will push prices back up again, if for no reason other than that people will remember the finite and declining nature of our world's oil reserves. I also think the starting gun has already gone off in the global race for uranium, but that's a story for another day.

### Oil Demand High

#### US oil demand increasing – predictive evidence

McKillop 6/17

 (Andrew, former Expert-Policy and Programming, Division A-Policy, DG XVII-Energy, with the European Commission, Brussels “ Crude Oil Demand Recovery Is Unlikely” The Market Oracle [http://www.marketoracle.co.uk/Article35184.html 7/9/12](http://www.marketoracle.co.uk/Article35184.html%207/9/12), MDRJ)

“World oil consumption will rebound next year as the global economy recovers, according to a report released by the Paris-based International Energy Agency which said it expects global oil demand to grow 1.7%, for an increase of 350,000 barrels per day from its previous estimate". The only problem with the serial oil demand growth-forecasting reports from the IEA is the above example dates from.... September 2009. At that time, crude for November delivery was trading around $71.75 a barrel for WTI grade. Why oil demand did not rebound is the real question, and the reasons for this are not only due to GDP change or oil prices but are wide ranging - and will go on growing. This especially affects the European Union countries, the US and Japan, which are the three main oil consumers in the IEA's 28 member states, using a combined 44.25 million barrels a day (Mbd) as of March 2012, almost exactly 50% of world total oil demand.

#### Oil demand is rising – our evidence is predictive

Bird, 6/25

(David, reporter for the Wall Street Journal, 2012, “EIA: Liquid-fuel demand to rise 0.9% annually,” The Wall Street Journal: Market Watch, <http://www.marketwatch.com/story/eia-liquid-fuel-demand-to-rise-09-annually-2012-06-25>, 7/10/12, MDRJ)

World liquid-fuels demand is expected to rise by 0.9% between 2010 and 2035, to 109.5 million barrels a day, with the world becoming more reliant on OPEC oil, according to a U.S. government forecast released Monday. The Energy Information Administration said China, the world's second-biggest oil consumer after the U.S., is expected to see its liquid fuels demand--mostly petroleum--rise by 2.8% annually between 2010 and 2035. Demand will hit 18.5 million barrels a day in 2035, more than double the 2010 rate of 9.19 million barrels a day. According to EIA data, China's oil demand doubled between 1980 and 1996 and again between 1996 and 2006. The world will be more reliant on oil supplies from the Organization of Petroleum Exporting Countries by 2035, the EIA projects. OPEC's share of world demand will rise to 41.9% in 2035 from 39.7% in 2010. Output of crude oil, condensates and natural-gas liquids from OPEC's Middle East members will rise by 1.5% in the period, offsetting declines in South America and North Africa. OPEC total oil output is expected to rise by 10 million barrels a day between 2010 and 2035, to 44.19 million barrels a day. As reported, U.S. oil demand will grow by a modest 0.2% a year through 2035, capped by increased energy efficiency and rising prices, and won't top the 2005 peak, according to government projections released Monday. The EIA forecast is based on an extended economic recovery, with real U.S. gross domestic product growth of 2.5% a year between 2010 and 2035, moderate population growth, improved technologies brought on by stricter federal and state regulations and higher energy prices..

#### OPEC Predicts an Increase in Oil Demand

Agence France-Presse 12 (7/11/12,MSN NEWS, OPEC Keeps 2012 demand forecast stable, http://news.malaysia.msn.com/business/opec-keeps-2012-demand-forecast-stable-3)DD

In its monthly report, the Organisation of Petroleum Exporting Countries saw world demand in 2012 at 88.68 million barrels per day (mbpd), almost unchanged from its previous forecast of 88.69 mbpd. In 2013, demand was to grow to 89.50 mbpd, up 820,000 barrels per day, and compared to the 890,000-bpd hike expected in 2012."Total world oil demand growth is expected to take place in the non-OECD area, mainly China, India, the Middle East and Latin America," OPEC predicted. This growth would come mostly from the industrial, transport and petrochemical sectors.In the best-case scenario, demand would grow by 1.0 mbpd, thanks to a quick economic recovery in the United States -- thereby boosting growth in developing countries -- and stronger performances in Europe and Japan.

#### Global Oil Demand is growing

Dunmore &Lewis 12 (Charlie, EU correspondent at Thomson Reuters, Barbara, Deputy Energy Editor, Reuters, OPEC Sees Steady Growth in Oil Demand, http://www.reuters.com/article/2012/06/28/eu-opec-demand-idUSB5E8HB02H20120628)

(Reuters) - OPEC expects global oil demand to show steady growth, particularly from big developing countries, despite the economic slowdown, a joint statement from the oil producers' group and the European Union said on Thursday."It was shown that oil demand in the world is set to witness steady growth, driven mainly by contributions from major developing countries, although policies aimed at alternative fuels, efficiency and higher taxes are viewed as a significant demand risk."The statement added that in OPEC's view, "(on) the supply side, the physical market continues to be supported by adequate growth in major producing regions, as well as appropriate stock levels. Additionally, OPEC spare capacity remains effective in lessening market pressures."

### Long-Term Oil Demand is High

#### Oil Demand will increase until 2040

Power Hedge 12 (7/9/12, Seeking Alpha, Staoil’s Energy Perspective Show Opinion for Natural Gas and Oil, http://seekingalpha.com/article/708341-statoil-s-energy-perspectives-show-optimism-for-natural-gas-and-oil)DD

The company expects that the actual growth in demand for oil will be higher than the 0.4% number provided earlier in this article. This is because Statoil expects the demand to peak in 2030. However, the 0.4% forward growth rate is the expected rate of growth in worldwide oil demand until 2040. Therefore, the annual expected growth in demand for oil between now and 2030 must be more than 0.4% to account for the flat to declining average annual growth in demand after 2040.

#### Global oil demand will rise

Bird 12 (David, 06/25/12, Journalist, Market Watch, EIA: Liquid-fuel demand to rise 0.9% annually, http://www.marketwatch.com/story/eia-liquid-fuel-demand-to-rise-09-annually-2012-06-25)DD

-OPEC share of world demand to hit 41.9% in 2035 vs 39.7% in 2010. Oil demand is expected to top out at 19.99 million barrels a day in 2035, up 770,000 barrels a day from 2010, but well below the 2005 peak of 20.8 million barrels a day.The world will be more reliant on oil supplies from the Organization of Petroleum Exporting Countries by 2035, the EIA projects. OPEC's share of world demand will rise to 41.9% in 2035 from 39.7% in 2010.

### Oil Prices Rising

#### Oil prices rising - declining supplies and more cars

Kahn 7-11 (Chris, AP Energy Writer, "Oil prices bounce back near $86," http://www.boston.com/business/news/2012/07/11/oil-prices-bounce-back-near/YDeXVsVh86Sv36i6mr3laN/story.html)

NEW YORK (AP) — The price of oil rose more than 2 percent Wednesday after the Federal Reserve released a report that signaled it may take further steps to lift the economy. China also reported strong auto sales for last month, and the U.S. said crude supplies declined last week by a much larger amount than what analysts expected. Benchmark U.S. crude rose by $1.90 to end the day at $85.81 per barrel in New York. Brent crude, which helps set the price of imported oil, increased by $2.26 to finish at $100.23 per barrel in London. The Fed on Wednesday released the minutes of a June meeting where it decided to extend a bond-buying program through the end of the year. The report showed that policymakers had agreed to take more aggressive steps to increase borrowing and spending. ‘‘They left their options open for more quantitative easing,’’ independent oil analyst Andrew Lipow said, referring to a government strategy to lower interest rates. The U.S. is the world’s largest oil consumer, and any increase in economic activity tends to boost oil demand. Oil prices began to rise early in the day after China’s auto industry said sales jumped 9 percent in June despite a slowing economy. China has quickly become the world’s biggest market for new vehicles, leading some cities to limit new registrations in hopes of controlling traffic congestion. Those limits drove customers to showrooms last month to buy cars ahead of any restrictions.

#### Oil prices rising – Europe recovers from debt crisis

Washington Post 6-28 ("Oil surges more than 9 percent as EU leaders tackle debt crisis; US pump prices could rise," http://www.washingtonpost.com/business/markets/oil-jumps-above-79-in-asia-as-eu-agree-to-use-bailout-money-to-fund-spains-struggling-banks/2012/06/29/gJQAQ2MdAW\_story.html)

Oil soared the most in more than three years after European leaders took surprisingly aggressive steps to halt a debt crisis that has undermined confidence in the global economy. Benchmark U.S. crude jumped by $7.27, or 9.4 percent, on Friday to end the week at $84.96 per barrel in New York. Brent crude, which helps set the price of imported oil, rose by $6.44, or 7 percent, to $95.51 per barrel in London. The surge could end a nearly three-month decline in U.S. gasoline prices. The national average for gas had declined from $3.94 per gallon in the first week of April to $3.35 on Friday. Oil rose after eurozone leaders unveiled a plan to rescue ailing banks, relieve debt-burdened governments in Italy, Spain and elsewhere and restore the confidence of markets. The progress in dealing with Europe’s lengthy debt crisis is good news for that continent’s — and the world’s — economy. Economic growth drives energy consumption. The deal was struck as borrowing rates in Spain and Italy surged to levels that were considered unsustainable. Leery investors were surprised and energized by the breakthrough — they rushed to buy riskier assets like oil and stocks and sold ultra-safe U.S. Treasuries. Stock in the U.S. rose more than 2 percent, while European stock markets posted even loftier gains. “All of a sudden we’re not worried about the Spanish and Italian banks going bankrupt over the weekend,” said Phil Flynn, an oil analyst with Price Group. U.S. drivers might not share in oil traders’ relief. Tom Kloza, publisher and chief oil analyst at Oil Price Information Service, said gasoline should get a little more expensive next week as stations price in the jump in oil, which accounts for two-thirds of the cost of a gallon of gas. Oil plunged around 25 percent from May 1 through Thursday. At $3.35 per gallon, the national average was the lowest since Jan. 6, according to auto club AAA, Wright Express and OPIS. Gas could still fall a few cents over the weekend — pump prices usually lag the action in the markets. “That’s probably the bottom until after Labor Day,” Kloza said. He expects the average to waver between $3.30 and $3.50 per gallon for the rest of the summer. Friday’s percentage rise in benchmark U.S. crude was the biggest since March 12, 2009. The dollar gain was the largest since Sept. 22, 2008.

## Links

### High Speed Rail

#### High speed rail lowers oil demand

Perl, 10

(Anthony, Director, Urban Studies Program, Simon Fraser University, 6/11, Council on Foreign Relations, “Reducing U.S. Oil Consumption,” <http://www.cfr.org/energyenvironment/reducing-us-oil-consumption/p22413>, Accessed: 7/6/12, GJV)

A key difference between redesigning our transportation system to enable post-carbon mobility and introducing infrastructure to bring us more extreme oil--like the Gulf of Mexico's deepwater reserves--can be found in the state of technology. Moving people and freight without oil can be done with mature technology. Conversely, the technology to safely produce extreme oil on a large scale remains to be perfected, as events in the Gulf have made obvious. High-speed trains have revolutionized the way that people move between cities hundreds of miles apart. These trains are powered by electricity--the ideal medium to facilitate a transition away from oil because it can blend energy sources and thus shift from non-renewable carbon based fuels like coal and natural gas to renewable sources like solar, wind, and water as soon as the infrastructure to generate them can be built.

#### High speed rail cuts US dependence on foreign oil

Dorsett, 10

(Katherine, Editor for CNN.com, 8/18/10, CNN.com, “Is the U.S. turning a corner on high-speed rail?” <http://www.cnn.com/2010/TRAVEL/08/18/us.high.speed.rail/index.html>, Accessed: 7/2/12, GJV)

For generations, much of the nation has been forced to use cars, buses or pricey aircraft to travel to nearby cities. But this year, Washington opened the door to what may be a historic turning point in regional travel. The Department of Transportation awarded $8 billion among 31 states to begin developing America's first nationwide high-speed intercity passenger rail service. Panyanouvong said he loves the idea of jumping on a train, turning on his computer and getting some work done on his way to Tampa, "without having to worry about traffic or driving." But the idea is much bigger than convenience, say supporters, who believe high-speed intercity rail will cut U.S. dependence on foreign oil, reduce climate-changing pollution and fatten wallets by triggering economic development. Soon, Americans might find themselves rocketing along ribbons of rails at 200 mph in sleek, painted passenger cars -- never stopping until they arrive at destinations awake and refreshed. The federal funding served as a down payment to develop the groundwork for 13 new high-speed rail corridors in the United States, including an Orlando-Tampa route. "High-speed rail in America is long overdue and President Obama understands we can't build the economy of the future on the transportation networks of the past," said Federal Railroad Administrator Joseph Szabo. Funded by the American Recovery and Reinvestment Act, these new dollars represent a historic investment in the country's transportation infrastructure. It will help create jobs and transform travel in America, according to a U.S. Department of Transportation official. "High-speed rail will also revolutionize the way Americans travel by reducing U.S. dependence on foreign oil, lowering harmful carbon emissions, fostering new economic development and giving travelers more choices when it comes to moving around the country," said the official.

### Mass Transit

#### Mass transit lowers oil demand

Addison, 12

(John, Publisher of the Clean Fleet Report and conference speaker, 3/14/12, CleantechBlog, “Record Public Transit Ridership Reduces U.S. Oil Dependency,” <http://www.cleantechblog.com/2012/03/record-public-transit-ridership-reduces-u-s-oil-dependency.html>, Accessed: 7/2/12, GJV)

The United States is reducing its dependency on oil as we now consuming 18.3 million barrels a day, down from our peak of 21 million barrels a few years ago. Record use of public transit is a major factor – less solo driving in gridlock and we use less oil. Other major factors, of course, include high gasoline prices and more fuel-efficient cars. Since 96 percent of our transportation is from oil refined into gasoline, diesel, and jet fuel, we will take all the help we can get. According to a report released today by the American Public Transportation Association (APTA), Americans took 10.4 billion trips on public transportation in 2011, the second highest annual ridership since 1957. Only ridership in 2008, when gas rose to more than $4 a gallon, surpassed last year’s ridership. With an increase of 2.3 percent over the 2010 ridership, this was the sixth year in a row that more than 10 billion trips were taken on public transportation systems nationwide. During 2011, vehicle miles of travel (VMTs) declined by 1.2 percent. A number of U.S. regions demonstrated leadership in improving bus and rail systems, often doing more with less. The best systems use rail as the backbone of the system integrated with more cost-effective bus. Light rail systems that showed major increases in 2011 include these regions: Seattle, WA up 37.2%, Dallas, TX up 31.2%; Buffalo, NY up 15.6; North San Diego County up 14.8%; Salt Lake City, UT up 14.4%. These rail systems use local electricity, not foreign oil. Cities with highest transit ridership use heavy rail (subways and elevated trains) to move millions. Heavy rail systems 2011 ridership growth was greatest in Cleveland, OH (12.3%), San Juan, PR (12%), Baltimore, MD (8.7%), Boston, MA (7.2%), San Francisco, CA (5.6%), Chicago, IL (5%), Miami, FL (4.9%), New York, NY (4.9%), and Philadelphia, PA (4.7%). Buses, including bus rapid transit, are the heart of getting riders to their final destination. Cleaning the air and improving U.S. energy independence, most new buses are hybrid or run on natural gas. Bus systems with largest 2011 growth include Columbus, OH (10.1%), Saint Louis, MO (10%), Orlando, FL (8.4%), Miami, FL (8.3%), Washington, DC (7.1%), San Diego, CA (6.8%), San Antonio, TX (6.3%), Arlington Heights, IL (4.6%), Minneapolis, MN (4.3%), and Baltimore, MD (3.9%).

#### Public transportation reduces foreign oil consumption

Publictransportation.org, 12

(Public Transportation, “Facts At A Glance,” <http://www.publictransportation.org/news/facts/Pages/default.aspx>, Accessed: 7/6/12, GJV)

From big cities, to small towns and everywhere in between public transportation is a vital resource to Americans, and a cornerstone of the nation’s economy. Relying on transit for their daily mobility needs Americans use local public transportation systems to get to and from work, or school, the doctor’s office, shopping, or visiting with family and friends; providing a vital link between residents and their communities. Public transportation reduces the nation’s dependence on foreign oil. It saves gas, and reduces congestion, all while helping reduce our carbon footprint.

### Electric Vehicles

#### Electric vehicles lower oil demand

UniStar Issue Brief, 11

(January 2011, UniStar Nuclear Energy, “Replacing Foreign Oil With Electric Vehicles,” <http://unistarnuclear.com/IB/IB_electric_vehicles.pdf>, Pg. 1, Accessed: 7/2/12, GJV)

The iconic electric vehicle (EV) is a classic example of a single, elegant solution to multiple problems. By fueling our light vehicle fleet with electricity, we can reduce our dependence on foreign oil, enhancing both national security and our balance of trade. Furthermore, by generating the electricity for this fleet with clean nuclear energy instead of fossil fueled power plants, we obtain substantial environmental benefits by reducing green house gas emissions and other unhealthy air pollution. Accomplishing such a transformational change in the United States transportation culture, demands a long-term energy policy that commits to electrification of our light vehicle fleet and to clean, reliable electrical generation, such as new nuclear, to support that fleet. The government must support research and development in battery and electric drive technologies, build public charging infrastructure, incentivize purchase of EVs, and support the market through direct purchase of EV fleets.

#### Electric vehicles can substantially lower oil demand

Levi, 10

(Michael A., Senior Fellow for Energy and the Environment of the Council on Foreign Relations, 6/11, Council on Foreign Relations, “Reducing U.S. Oil Consumption,” <http://www.cfr.org/energyenvironment/reducing-us-oil-consumption/p22413>, Accessed: 7/6/12, GJV)

The International Energy Agency (IEA), for example, outlined a moderately aggressive scenario last year that would see the United States cut its oil consumption by 29 percent between 2007 and 2030. Sixty percent of that cut would have come from transportation, with the balance coming primarily from nearly eliminating oil use in electricity generation and from conservation in heating homes. A mix of better internal combustion engines, shifting to hybrid and plug-in-hybrid vehicles, and greater use of biofuels would produce the transport result. If that was combined with increased onshore oil production, perhaps from CO2-enhanced oil recovery, it could cut U.S. imports by more than half.

### Airplanes

#### Next gen airplanes lower US oil demand

Gibson, 12

(Kate, writer for the Daily Herald, 3/11/12, Dailey Herald, “Obama touts technology to reduce dependence on foreign oil,” <http://www.heraldextra.com/news/national/govt-and-politics/obama-touts-technology-to-reduce-dependence-on-foreign-oil/article_40973a88-e076-5ab1-89fa-06fe4fc13e6d.html>, Accessed: 7/2/12, GJV)

NEW YORK -- President Barack Obama used his weekly radio and Internet address Saturday to tout fuel-efficient technology as one way to reduce energy costs and the nation's dependence on foreign oil. In an address recorded during a trip Friday to a jet-engine component factory in Virginia, the president said the parts manufactured at the Petersburg plant would be used in "lighter, faster and more fuel-efficient" next-generation planes. "Whether you're paying for a plane ticket, or filling up your gas tank, technology that helps us get more miles to the gallon is one of the easiest ways to save money and reduce our dependency on foreign oil," said Obama, adding that the recent rise in gasoline prices illustrated the reasons for investing in technological solutions. Defending himself from Republican criticism of his energy policies, Obama said under his administration, U.S. oil production is at an eight-year high, and millions of acres have been opened up for drilling. But, "with only 2 percent of the world's oil reserves, we can't just drill our way to lower gas prices -- not when we consume 20 percent of the world's oil," said the president, calling for a strategy less reliant on foreign oil and more on American-made energy, including solar, wind, natural gas and biofuels. In the Republican response, North Dakota Gov. Jack Dalrymple accused Obama of blocking projects that would facilitate more domestic oil production, pointing to the Keystone XL pipeline project deferred by the administration until after the election. North Dakota has doubled its oil production is the last four years, and the state's oil producers were scheduled to feed the Keystone pipeline with 100,000 barrels of crude oil a day, Dalrymple said. But the state "cannot effectively market our crude oil domestically without a large north-south pipeline," Dalrymple said. Gasoline prices have risen in recent weeks along with the cost of crude, as concern the international standoff with Iran over its disputed nuclear program among the factors driving concern of possible supply disruptions. On Friday, oil futures ended at $107.40 a barrel on the New York Mercantile Exchange, up 0.7 percent for the week. In California, the average price of regular unleaded gasoline currently stands at $4.355, compared with $3.370 in Colorado, according to a list of state averages complied by the motorist group AAA.

#### **Next gen airplanes save billions of gallons of fuel**

Department of the Treasury and the Council of Economic Advisors, ’12

(3/23/12, “A New Economic Analysis Of Infrastructure Investment,” pg. 13, http://www.treasury.gov/resource-center/economic-policy/Documents/20120323InfrastructureReport.pdf, Accessed: 7/6/12, GJV)

NextGen is also a timely initiative. American air travelers lose substantial time due to congestion, flight delays, cancellations and missed connections. The total cost of these delays to passengers was estimated at $16 billion in 2007. Problems in our aviation system result in significant cost increases to airlines as well, with an estimated $8 billion in increased costs. 26 Adopting a next generation air traffic control system (NextGen) could significantly reduce these delays and their associated costs. NextGen would help both the Federal Aviation Administration and airlines to install new technologies and, among other improvements, move from a national ground-based radar surveillance system to a more accurate satellite-based surveillance system – the backbone of a broader effort to reduce delays for passengers, increase fuel efficiency for carriers, and cut airport noise for those who live and work near airports. According to one study, implementation of NextGen technology would result in a reduction of 4 million hours of passenger delay annually, savings of 3 billion gallons of fuel, and the elimination of 29 million metric tons of carbon emissions. Total projected savings from NextGen implementation would result in $29 billion of net benefits annually for the United States by 2026. 27 These benefits justify the President’s request to increase federal investment in NextGen to over $1 billion in fiscal year 2013.

### NIB

#### A national infrastructure bank would lower oil demand

ASSHTO Journal, 12

(3/20/12, “US Treasury Department Report Examines Nation’s Transportation Infrastructure Needs,” <http://www.aashtojournal.org/Pages/033012treasury.aspx>, Accessed: 7/2/12, GJV)

U.S. drivers go through 1.9 billion gallons of gasoline each year and expend more than $100 billion annually in lost fuel and time due to traffic delays, concludes a report from the U.S. Department of Treasury, released last Friday. An annual investment of $85 billion over the next 20 years would be needed to bring highways and bridges up to the level of good repair, according to the report. The report, which discusses the Obama Administration's plans for Fiscal Year 2013 to modernize and expand transportation infrastructure nationwide, addresses how increased investment could help alleviate traffic congestion and reduce dependence on foreign oil. That plan calls for an up-front investment of $50 billion tied in with $476 billion for the six-year reauthorization and the establishment of a National Infrastructure Bank. (The Obama Administration's proposed budget was not approved by the House this week. [See related story](http://bit.ly/Hz6hH1).) The report also examines how additional federal funding could create jobs and boost the U.S. economy.

#### The plan would lower oil demand by billions of gallons a year

US Department of the Treasury, 12

(3/23/. “A New Economic Analysis of Infrastructure Investment: A Report Prepared by the Department of the Treasury with the Council of Economic Advisors,” <http://www.treasury.gov/resource-center/economic-policy/Documents/20120323InfrastructureReport.pdf>, p. 3, Accessed: 7/6/2012, GJV)

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.

### Nuclear Power

#### Further development of nuclear power cannot be obtained because of the nuclear waste issue

Bell, 12

(Larry, Architecture professor and columnist, 6/17/12, Forbes, “Radioactive Power Politics: New Court Decision Lays Waste To U.S. Nuclear Power Development,” <http://www.forbes.com/sites/larrybell/2012/06/17/radioactive-power-politics-new-court-decision-lays-waste-to-u-s-nuclear-power-development/>, Accessed: 7/3, GJV)

On June 8, the U.S. Court of Appeals, D.C. Circuit, unanimously ruled that the Nuclear Regulatory Commission (NRC) cannot license or re-license any nuclear plant until it examines environmental dangers and consequences of long-term on-site spent fuel waste storage. That decision will have profound impacts upon nuclear development throughout the nation. Petitioners that successfully sought the ruling include four states (Connecticut, New Jersey [New York](http://www.forbes.com/places/ny/new-york/), and Vermont), an Indian community, and a number of environmental groups. The big story behind it involves a political battle between environmentalists who have succeeded in blocking completion of a permanent national repository for spent fuels, others that don’t want the wastes stored at sites near them, groups that are against nuclear development everywhere, and those who regard nuclear power development to be a major and essential part of our country’s power mix. Thus far, the first three groups are clearly winning, and the Obama administration-influenced NRC is working to tip the scale in their favor. Natural Resources Defense Council attorney Geoff Fettus responded to the ruling as a “game changer”, saying, “This forces the Nuclear Regulatory Commission to take a hard look at the environmental consequences of producing highly radioactive nuclear waste without a long-term disposal solution. The court found: ’The Commission apparently has no long-term plan other than hoping for a geologic repository,’” Unfortunately, he, and the court, are right. The Appeals Court, in fact, did [conclude](http://www.cadc.uscourts.gov/internet/opinions.nsf/57ACA94A8FFAD8AF85257A1700502AA4/%24file/11-1045-1377720.pdf) that, “We recognize that the Commission is in a difficult position given the political problems concerning the storage of spent nuclear fuel. Nonetheless, the Commission’s obligations under NEPA [National Environmental Policy Act] require a more thorough analysis than provided in the WCD [Waste Confidence Decision] Update. We note that the Commission is currently conducting an EIS [Environmental Impact Statement] regarding the environmental impacts of SNF [spent nuclear fuel] storage beyond the sixty-year post-license period at issue in this case, and some or all of the problems here may be addressed in such rule-making. In any case, we grant the petitions for review, vacate the WCD Update and TSR [Temporary Storage Rule], and remand for further proceedings consistent with this opinion.” It’s not that we don’t need those 104 nuclear power plants which provide about 20% of all U.S. electricity, don’t produce any dreaded CO2 emissions, and have never killed anyone. And since the president is determined to shut down as many of the coal-fired plants which provide about 45% of our electricity as possible, wouldn’t you imagine he might wish to encourage a few more to be built? After all, it has been three and one-half decades since this has occurred. There can be little doubt that a major reason for the dearth of new nuclear development has been the industry’s inability to compete in the energy marketplace without subsidies, including loan guarantees. And while I have repeatedly argued against subsidies for any and all energy sources, nuclear, which currently supplies a substantial portion of our nation’s power supply, should be allowed opportunities, like any industry, to compete in those markets without unwarranted and unreasonable interference. Yet as reported in an excellent Heritage Foundation paper authored by Cornelius Milmoe and Jack Spencer, this clearly isn’t the case. Under marching orders from the Obama White House and Senate leader Harry Reid’s central command battalion, the NRC is waging a devastating nuclear war against atomic power expansion

#### **Problems with the waste issue prevents further development of nuclear power into a fuel source**

Bezdek, 9

(Dr. Roger H., Research Director in [Energy Research and Development Administration](http://www.ch.doe.gov/html/site_info/energy_research.htm) DOE,“Nuclear Power Prospects In The USA: The Continuing Problem Of The Waste Issue,” http://www.misi-net.com/publications/EE-V20N3-09.pdf, Pg. 375, Accessed: 7/3/12, GJV)

This paper addresses two questions concerning the economics and prospects for nuclear power in the USA: 1) What is the long term economic future of nuclear energy? 2) Is the inability to solve the nuclear waste issue a factor that will limit new nuclear plant development? With respect to the first question, we find that the long term economic future of nuclear energy is uncertain, at best. Despite recent interest in a “nuclear renaissance,” objective, rigorous studies have concluded that, at present, new nuclear power plants are not economically competitive with coal or natural gas for electricity generation and will not be for the foreseeable future. With respect to the second question, we find that the inability to solve the nuclear waste issue will likely limit new nuclear plant development. Nuclear waste disposal poses a serous, seemingly intractable problem for the future of nuclear power, and the waste issue could be a show stopper for new nuclear plants. Thus, while some new nuclear power plants will likely be built in the U.S. over the next two decades, a major “nuclear renaissance” is unlikely.

#### **The waste issue prevents investment into the use of nuclear fuel**

Bezdek, 9

(Dr. Roger H., Research Director in [Energy Research and Development Administration](http://www.ch.doe.gov/html/site_info/energy_research.htm) DOE,“Nuclear Power Prospects In The USA: The Continuing Problem Of The Waste Issue,” http://www.misi-net.com/publications/EE-V20N3-09.pdf, Pg. 383, Accessed: 7/3/12, GJV)

Radioactive spent fuel produced by nuclear reactors poses a disposal problem that could limit new nuclear plant construction. The Nuclear Waste Policy Act of 1982 commits the federal government to providing for permanent disposal of spent fuel in return for a fee on nuclear power generation. However, the schedule for opening the planned national nuclear waste repository at Yucca Mountain, Nevada, has slipped two decades past NWPA’s deadline of 01-01-98. DOE currently hopes to begin receiving waste at Yucca Mountain by 2017.17 In the meantime, more than 50,000 tons of spent fuel are being stored nuclear facility sites. NWPA limits the Yucca Mountain repository to the equivalent of 70,000 tons of spent fuel and, since U.S. nuclear power plants discharge an average of 2,000 tons of spent fuel per year, the Yucca Mountain storage limit is likely to be reached before any new reactors come on line. Thus, even if Yucca Mountain eventually begins operating, it could not accommodate the spent fuel from new nuclear power plants, and continued storage at reactor sites and interim storage at central locations may be necessary.18 The extent to which the nuclear waste issue could inhibit nuclear power expansion is unclear. NRC contends that onsite storage of spent fuel would be safe for at least 30 years after expiration of a reactor’s operating license,19 and NRC does not consider the lack of a permanent waste site to be an insurmountable obstacle.20 Seven states have laws that link approval of new nuclear power plants to adequate waste disposal capacity,21 although the U.S. Supreme Court has limited state authority here.22 No nuclear plants have been ordered since the various state restrictions were enacted, so their ability to meet the Supreme Court’s criteria has yet to be tested. Finally, the nuclear waste issue has historically been a focal point for public opposition to nuclear power. Proposed new reactors that have no clear path for removing waste from their sites could face intense opposition.23

### Fuel Efficiency

#### **Fuel Efficiency will lower oil demand**

U.S. Department Of Energy, 12

(March, Vehicle Technologies Program, “Improving Vehicle Efficiency, Reducing Dependence on Foreign Oil,” <http://www.nrel.gov/docs/fy12osti/54311.pdf>, Pg. 1, Accessed: 7/3/12, GJV)

Today, the United States spends about $400 billion each year on imported oil. To realize a secure energy future, America must break its dependence on imported oil and its volatile costs. The transportation sector accounts for about 70% of U.S. oil demand and holds tremendous opportu­nity to increase America’s energy security by reducing oil consumption. That’s why the U.S. Department of Energy (DOE) conducts research and development (R&D) on vehicle technologies which can stem America’s dependence on oil, strengthen the economy, and protect the environment. R&D drives innovation while lowering technology costs, which then enables the private sector to accelerate clean technology deployment. Along with R&D, DOE’s Vehicles Technologies Program deploys clean, efficient vehicle tech­nologies and renewable fuels, which reduce U.S. demand for petroleum products. The program works with industry, universities, and state and local governments on projects that make a difference in the everyday lives of Americans.

#### **Fuel Efficiency will displace oil use**

U.S. Department Of Energy, 12

(March, Vehicle Technologies Program, “Improving Vehicle Efficiency, Reducing Dependence on Foreign Oil,” <http://www.nrel.gov/docs/fy12osti/54311.pdf>, Pg. 1, Accessed: 7/3/12, GJV)

Fuels Technology R&D will lead to fuel options that are cost-competitive, enable higher fuel economy, deliver lower emissions, and reduce imported oil use. For example, the team is developing advanced lubricants to lower the friction losses in new and legacy vehicles and evaluating alternative fuels that could displace conventional petroleum-derived fuels.

## Oil Market Internal Links

### US Key

#### Oil markets watch the market and will act upon what they see

Roberts 2004

(Paul, has written for The Los Angeles Times, The Washington Post, and The (UK) Guardian and has appeared in Slate, USA Today, The New Republic, Newsweek, The Christian Science Monitor, Rolling Stone, Seed, and Outside, The End of Oil, p. 95. 7/6/12 MDRJ)

Within the oil world, no decision of any significance is made without reference to the U.S. market, nor is anything left to chance. Indeed, the oil players watch the American oil market as attentively as palace physicians once attended the royal bowels: every hour of every day, every oil state and company in the world keeps an unblinking watch on the United States and strains to find a sign of anything — from a shift in energy policy to a trend toward smaller cars to an unusually mild winter — that might affect the colossal U.S. consumption. For this reason, the most important day of the week for oil traders anywhere in the world is Wednesday, when the U.S. Department of Energy releases its weekly figures on American oil use, and when, as one analyst puts it, “the market makes up its mind whether to be bearish or bullish.”

### Government policies are perceived

#### Oil Companies react to government policies

Wallace 11 (Charles Wallace - writes the foreign exchange column for Institutional Investor, and contributes to Fortune, Money and Bloomberg.com - Big Oil Reacts to Obama's 'Discriminatory' Proposals - http://www.dailyfinance.com/2011/01/28/big-oil-rejects-obama-subsidy-proposals/)

The petroleum industry is pushing back against President Obama's demand, brought up during this week's State of the Union address, that tax subsidies for oil and gas drilling be curtailed. "It's not as if the government is taking money out of its pocket and paying the oil and gas industry," says Stephen Comstock, manger for tax policy at the Washington, D.C.-based American Petroleum Institute. "The fact is we're in a net income tax system, and in many instances these are recovering our costs. To sit there and say they are OK for everybody else, but they are not OK for you seems discriminatory." In his speech Tuesday, President Obama called for increased subsidies for renewable energy sources like biomass and wind power. But he went one step further and called or eliminating existing subsidies for the oil industry. "I don't know if you have noticed, but they're doing just fine on their own," Obama told Congress, which must approve any reduction in oil industry subsidies. "So instead of subsidizing yesterday's energy, let's invest in tomorrow's."

### Market controls prices

#### The market effects oil prices

Brannon 12 (Director of Economic Policy as well as the Director of Congressional Relations for the American Action Forum <http://www.nationalreview.com/corner/294768/domestic-oil-policies-do-impact-oil-prices-ike-brannon>)

Oil speculation is essentially the process of betting on future prices. People who anticipate needing a good deal of oil in the future and want to guard against the uncertainty of higher prices can enter into a contract that — for a fee — allows them to lock in a price today. While some people use futures contracts to hedge against future prices, others actively offer to take the risk, and those people we call speculators. If a speculator expects prices to rise in the future, he will make large investments in oil today that he may then sell at the later, higher price. For those with the means, there is much money to be made in this way, and the actions of speculators can and do influence the world price of oil. The expectation of higher prices leads to greater consumption which, like any increase in demand, leads to higher prices, creating a self-fulfilling prophesy. It works the opposite way as well: If speculators began to anticipate prices falling in the future, they would want to sell their shares sooner rather than later, since delaying will force them to accept lower prices. This would result in an immediate increase in supply, which would in turn bring down prices today.

#### Market controls oil prices

Amos 11 (Howard Amos joined The Moscow Times' business desk as a reporter and writes on a variety of topics, including macroeconomics, finance and banking, and energy. http://www.themoscowtimes.com/business/article/declining-oil-prices-follow-market-trends/444573.html)

Russian equities followed international trends. In Moscow, MICEX closed up 2.17 percent at 1,407.71. RTS finished at 1389.14, a 1.59 percent rise. But recent market gains cannot mask a general downward trend and negative sentiment. Slowing economies reduce the demand for oil, putting downward pressure on prices. Citigroup cut their 2011 growth figure for the Russian economy for the second time Thursday, to 2.5 percent.

### Oil markets sensitvie

#### Hypersensitivity means the DA is non-unique

McGauley, 12

(Chris, staff writer for The Missouri Miner, March, 15th, The Missouri Miner, “Rising Gas Prices Around the Nation Raise Questions” <http://mominer.mst.edu/2012/03/05/rising-gas-prices-across-the-nation-raise-questions/> July 2nd, MDRJ)

Iran has responded by halting all exports to Britain and France, while threatening to cut off the rest of EU countries before the EU’s July 1 deadline. Iran still has an ace, because it borders the Strait of Hormuz – a strategic waterway that sees 20 percent of the world’s oil float through it. By restricting access to this waterway, Iran could negatively affect the rest of the world’s oil supplies, as Iran has threatened to do. The crude oil markets predict and prepare for the future based on current trends, and therefore the markets are a little haywire right now. Having little precedent for the current world-political climate, the markets are erring on the safe side and raising prices because of the uncertainty of oil futures. Because Iran has prevented the inspection of developing nuclear facilities by UN personnel, international efforts are being undertaken to investigate wide-spread suspicions. These efforts are throwing the international crude oil markets out of whack, caused by speculation about the future. These markets affect the price refineries can purchase and sell crude oil products, and therefore directly affect your pocket book.

#### The perception of a change in demand will change the price

 Kosakowski, 11

(Paul, writer and long-time investor from investopedia.com, 6/11, Investopedia.com “What Determines Oil Prices”, <http://www.investopedia.com/articles/economics/08/determining-oil-prices.asp#axzz1zuSutPpH>, 7/7/12 MDRJ)

Not quite. The price of oil as we know it is actually set in the oil futures market. An oil futures contract is a binding agreement that gives one the right to purchase oil by the barrel at a predefined price on a predefined date in the future. Under a futures contract, both the buyer and the seller are obligated to fulfill their side of the transaction on the specified date. The following are two types of futures traders: hedgers speculators An example of a hedger would be an airline buying oil futures to guard against potential rising prices. An example of a speculator would be someone who is just guessing the price direction and has no intention of actually buying the product. According to the Chicago Mercantile Exchange (CME), the majority of futures trading is done by speculators as less than 3% of transactions actually result in the purchaser of a futures contract taking possession of the commodity being traded. The other key factor in determining oil prices is sentiment. The mere belief that oil demand will increase dramatically at some point in the future can result in a dramatic increase in oil prices in the present as speculators and hedgers alike snap up oil futures contracts. Of course, the opposite is also true. The mere belief that oil demand will decrease at some point in the future can result in a dramatic decrease in prices in the present as oil futures contracts are sold (possibly sold short as well).

#### Oil prices are hypersensitive to change

Crawford and Fredericks, 06

(Peggy, PhD in Finance and experienced writer for Graziadio Business News, she has published in a variety of journals on topics such as leasing, mortgages, closed-in mutual funds, the depreciation of the dollar, the trade and federal deficits, and the price of oil. Edward,MBA, CFA Professor of Business at Pepperdine University “Update: The Price of Oil” Graziadio Business News, Volume 9, Number 1, MDRJ)

Energy prices are a continuing concern to world economies. Most economies have weathered the high prices with only slight pauses and minimal disruptions. However, uncertainty is still high, and oil prices remain hypersensitive to decreases in supply and increases in demand. So far the warnings of impending problems-reduction in spending (particularly consumer spending), increase in inflation, decrease in GDP growth rates, and decrease in corporate profits-have not appeared. Nevertheless, if oil prices begin to approach 1970s levels ($80 a barrel in today’s dollars), the economy could face a similar fate: sharp recession. The worst may be still to come.

#### Oil prices are fickle

Rosch, and Schmidbauer 11

 (Angi with the FOM University of Applied Sciences, Study Centres Munich, Germany, and Taian, China, and Harold, , with the Department of Business Administration,

Bilgi University, Istanbul, Turkey, July 30th, “CRUDE OIL SPOT PRICES AND THE MARKET'S PERCEPTION OF INVENTORY NEWS” 7/2/12 MDRJ)

Since the late 1980s, crude oil prices are among the most volatile products and commodities, see e.g. Regnier [9]. Extreme swings in crude oil prices use to be linked to geopolitical events, and economic turmoil. The role of the OPEC uses to be questioned, and possible effects of the cartel's announcements of decisions have been analysed (e.g. Fattouh [3], Schmidbauer & Rosch [10]). One clue to understand the recent zig-zag of prices, however, seems to be the uncertainty about market fundamentals. While demand shocks are blamed by Wirl [11], supply factors are brought forth by Gallo et al. [4]. According to Kaufmann [7], there is impact of changes in both market fundamentals on crude oil prices, with major speculative pressure interfering from 2004 onwards, when prices rapidly increased. Effects of refining capacity and inventories on crude oil prices and transmissions in the energy supply chain are investigated by Kaufmann et al. [5, 6]. Their results indicate little evidence of an effect of higher refinery utilization, while a rise in crude inventories

#### Oil prices are sensitive to the economy

Micik, 7

(Kate, bachelor's of journalism in news/editorial writing and minors in history and sociology, 11/20, The Progressive Farmer, Crude Tops Initial Resistance, <http://www.dtnprogressivefarmer.com/dtnag/common/link.do;jsessionid=D2B4A4689C737189CE84E5D760060BFD.agfreejvm2?symbolicName=/ag/blogs/template1&blogHandle=grainmarkets&blogEntryId=8a82c0bc162009dd01165e29247402c1&showCommentsOverride=false&blogRegionCode>=, 7/5/12 MDRJ)

As Newsom said, it's noncommercial buying interest that is seen driving the crude rally, but one commentary we read points out that oil producers are playing a role, too. At Optionetics.com, James Cordier and Michael Gross wrote, "With billions of new dollars pouring into commodities each year, commodity and hedge funds need a place to put it. Funds tend to be trend followers and they tend to favor the long side of the market (commodity index funds are always long the market). Thus, a solid uptrend with a good fundamental demand story and massive open interest makes a perfect market for funds to 'place' equity. Any bullish tidbit of news becomes an excuse to buy. This is why oil markets have been hypersensitive to any type of bullish news story in recent weeks. These waves of capital flowing into energy markets create more buyers than sellers. If oil producers were eager to lock in profits at these levels, hedge selling would have curbed price gains weeks or even months ago

#### Oil prices sensitive to worldly happenings

Skjong, 12

(James, B.A. in Political Science and a concentration in Political Economy, 6/8, Ulland Investment Advisors, Weekly Update – June 8, 2012, <http://www.ullandinvestment.com/weekly-update-june-8-2012/>, 7/5/12. MDRJ)

Our trust preferred portfolios continue to withstand the market volatility, outperforming the Dow by approximately 6%, returning 8% on average versus 2% for the Dow, year-to-date through Thursday, June 8. Energy stocks in our portfolios have been adversely affected by falling oil prices. Crude oil briefly traded below $83 per barrel on Friday for the first time since last October before closing at $84.10. Crude oil prices are sensitive to world economic growth forecasts and geopolitical unrest such as found in Iran, which has been calmer than earlier in 2012.

#### Oil prices react to world events. Empirics prove.

Oilcareersinfo.com No Date

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In the 1990s consolidation of the oil industry was flourishing. BP planned to acquire Amoco in 1998. In the same year Exxon planned to acquire Mobil. Then in 1999 Atlantic Richfield (ARCO) was acquired by BP-Amoco, and Total Fina and Elf Aquitaine agreed to merge. In 2002 Conoco and Phillips merged. These types of mergers led to reductions in staff, as oil companies tried to eliminate duplicated positions, especially in administrative areas. Oil prices are sensitive to world events, and by 2006 the price per barrel rose to $78.40 primarily due to concerns about world politics, especially nuclear development in Iran, concern about supplies from Iraq, Nigeria and other sources, as well as missile tests by North Korea. By 2008 the crude oil price per barrel was $147.27 because of concerns about supplies and the weak U. S. dollar. As the global recession became a reality in late 2008 and the first half of 2009, crude prices fell to $34 per barrel. The only true constant in the oil industry is change

### Oil Markets speculate on future prices

#### Speculation plays a big part in the oil market – Agriculture bill proves

Bartoloni, 11

(Kristen, writer for thinkprogress.com, 6/14, “Rep. Kingston calls Oil A Red Herring” thinkprogress.com, <http://thinkprogress.org/climate/2011/06/14/245425/kingston-speculation-red-herrin/?mobile=nc>,, 7/7/12, MDRJ)

Today the House debated the FY 2012 Agriculture Appropriations bill, which “cuts aid for low-income pregnant women and their children and slashes a key overseas food aid program by about one-third below this year’s funding.” While these drastic cuts are morally indefensible on their own, the bill also contains massive cuts to the oil speculation watchdog – the Commodities Futures Trading Commission. While experts agree that excessive speculation in the oil markets lead to higher gas prices, Rep. Jack Kingston of Georgia, the chairman of the House Rules Committee, simply dismissed the influence, and called debate about slashing CTFC funding a “red herring”: What I suggest to you is that the discussion of the CFTC and oil speculators is a red herring. The real issue the Democrats failed to address is drilling for oil in order to increase supply. Watch it: But speculation’s role in rising gas prices is no secret, and it’s been proven time and time again that more drilling won’t help lower gas prices. In May 2011, the CFTC charged traders for artificially driving up the price of oil in 2008, and in April of this year, Goldman Sachs, the world’s largest commodity trader admitted that speculation was to blame for high oil prices, telling its clients that speculation had added as much as $27 to the price of a barrel of oil . And during a Senate Financial Services Committee hearing, Rex Tillerson, the CEO of Exxon Mobil, said that if prices were reliant just on supply and demand, the price of a barrel of oil should be about $60 or $70 per barrel.

### Speculation keeping oil prices high

#### Prices up-Speculation key

Weiner 12 (Robert J., Professor of International Business, Public Policy and Public Administration, and International Affairs at the Elliot School of International Affairs 02/07/2012 “Speculation in International Crises: Report from the Gulf, Journal of International Business Studies”, Vol. 36, No. 5, pp. 576-587 TM)

The question of the role of the trading process in market stability is an old one. During financial crises, derivatives trading activity rises. Trading could be a response to increased volatility, as market participants attempt to hedge or speculate, but it could also exacerbate the volatility arising from shifts in underlying fundamentals. Critics of derivatives markets have pointed to the enormous price spike that accompanied the Gulf Crisis (see Figure 1), despite the fact that the lost production was quickly made up from other sources, as discussed above. The critics' view is that most, if not all, of the price run-up was due to speculation on derivatives markets. Such views are widespread,11 and the basic intuition is straightforward. The presence of derivatives markets makes speculation less expensive. In the oil crises of the 1970s and 1980s, speculation on oil-price changes entailed buying and storing physical cargoes, and selling them at a later time. With derivatives markets, one need only buy 'paper barrels', and pay only a part of the cost ('margin'), which opens up speculation to many more participants. If the speculators who enter the market as a result of the reduced cost of trading are less knowledgeable about market fundamentals than those already in the market, the result can be increased price volatility. 12 Over the last decade, researchers have addressed this question by comparing price volatility for a given asset, typically measured by standard deviations of returns, between periods when the exchange is open and closed. The idea behind this methodology is straightforward, and runs as follows. There are two types of reason why asset prices might fluctuate. The first is 'news' - shorthand for the arrival into the market of new information regarding future supply and demand fundamentals. For example, if Iraq had invaded Saudi Arabia, a supply disruption of unprecedented magnitude would very likely have ensued. In anticipation of the future reduction in supply, inventories would have been built up, resulting in an immediate price increase. Such a price increase would fall into the category of response to news about market fundamentals, and would occur irrespective of the presence of derivatives markets. The second possible source of price fluctuation is the trading process itself. If speculators drive prices up and down as a result of their trading activity, then volatility need not be the result of news (see, e.g., Black, 1986). Two possible channels for the trading process to affect volatility can be consistent with rational behavior. The first is 'noise trading', based on extrapolation of past price trends (a popular trading strategy, known as 'technical analysis', or 'charting'), rather than on anticipated changes in market fundamentals. The second is 'herding', wherein less-informed traders attempt to watch better-informed traders, and to copy their trading strategies. Either case may lead to periodic 'contagion' or 'stampedes', wherein a large group of traders all attempt to move in the same direction at the same time, resulting in increased price volatility.13 Of course, these two sources need not be mutually exclusive; most derivatives market detractors claim not that the trading process creates volatility out of thin air, but rather that it exacerbates volatility arising from changes in fundamentals. The empirical approach below compares price volatility during periods when exchanges are open, and thus both news and trading effects are present, with periods when they are closed, so that only the news effect is present. If the news effect is the same during trading and non-trading periods, then any observed differences in volatility can be ascribed to the trading process itself.14 This methodology can be applied to prices of crude-oil futures contracts to shed light on the issue addressed in this paper - the role of derivatives trading in the oil-price shock attending the Gulf Crisis. This section compares the volatility of WTI crude-oil prices during the period when the NYMEX is open for trading crude-oil futures 9:45 AM to 3:10 PM Eastern time, Monday through Friday, except holidays - with price volatility when the exchange is closed.15 The methodology is particularly effective here due to geography. During a supply shock, news about market fundamentals is associated primarily with possible changes in oil production and exports, rather than consumption, which adjusts gradually. Thus, during the Gulf Crisis, news was most likely to be coming out of the Middle East, whether in the form of actions or threats thereof by Iraq or the allies, or of oil-related or military announcements in Saudi Arabia, or of effects upon the Kuwaiti oil sector.

#### Speculation exaggerate price swings- key to sharp rises in gas prices

Carter 12 (Zach, The Huffington Post's Senior Political Economy Reporter, 03/20/2012 “Oil Prices Spike Exacerbated By Wall Street Speculation, Federal Reserve Study Finds,” <http://www.huffingtonpost.com/2012/03/20/wall-street-speculation-oil-price_n_1367896.html> TM)

WASHINGTON -- Two economists at the St. Louis Federal Reserve have published findings that indicate that Wall Street speculation is responsible for 15 percent of the increase in oil prices over the past decade, a finding with significant implications for the recent sharp rise in gas prices. While politicians have little ability to alter the price swings of commodities like oil, regulators have both the authority and policy tools to do so. The Commodity Futures Trading Commission is responsible for overseeing the financial market for oil. The 2010 Wall Street reform bill gave the CFTC new power to limit excessive speculation, but the rule will not go into effect until later this year. According to St. Louis Fed economists Luciana Juvenal and Ivan Petrella, speculation in oil markets was the second-biggest factor behind the past decade's price run-up, behind increased global demand for oil, which accounted for 40 percent of the increase. "Speculation was the second-largest contributor to oil prices and accounted for about 15 percent of the rise," the economists wrote. "The effect that speculation had on oil prices over this period coincides closely with the dramatic rise in commodity index trading -- resulting in concerns voiced by policymakers." Commodity indexes allow speculators to bet on the price of several commodities at once, and have become very popular investment tools for both Wall Street investment companies and pension funds. Between 2004 and 2008, the total volume of trading activity in commodity indexes jumped from $13 billion to about $260 billion, according to research by Michael Masters, founder of Masters Capital Markets and the financial reform nonprofit Better Markets. Masters and others have noted that speculation can exaggerate price swings otherwise dictated by fundamental supply-and-demand dynamics, and can also force prices to move contrary to supply-and-demand predictions. During 2008, when oil prices soared to their highest level on record, they did so during a period in which global demand was low and global supply was high -- what should have been a recipe for lower prices. The most recent Fed study concludes that economic fundamentals are still the primary determinant, saying only that speculation can "exacerbate" price swings. "Global demand remained the primary driver of oil prices from 2000 to 2009," Juvenal and Petrella wrote. "That said, one cannot completely dismiss a role for speculation in the run-up of oil prices of the past decade. Speculative demand can and did exacerbate the boom-bust cycle in commodity prices. Ultimately, however, fundamentals continue to account for the long-run trend in oil prices." Fuel prices are currently at the highest level on record for the month of March, a phenomenon upon which presidential candidates are seizing to attack President Barack Obama on the issue at campaign stops. The financial reform bill Obama signed into law in 2010 allowed the CFTC to write its new rule, designed to curb price movements influenced by excessive speculation. The rule limits the size of the bets that individual traders can make on any given commodity.

#### Speculation is key to high oil prices

Tokic 11 (Damir, International School of Business, 9 July 2011 “Speculation and the 2008 oil bubble: The DCOT Report analysis,” <http://www.sciencedirect.com/science/article/pii/S0301421512002042> TM)

Less than 3 years after the peak of the 2008 oil bubble, the price of crude oil spiked again in early 2011 (Exhibit 1). Similarly, in 2008 and 2011, the prices of other commodities were on the rise as well, which caused higher food prices globally. As a result of high oil prices and rising food prices, in 2008 we had the “rice riots” in Southeast Asia. In 2011, we had “the Arab spring”. By drawing more parallels, the price of oil was rising in 2008 despite the US recession, while in 2011 the price of oil was rising despite the fact that the global economy was still on a “life support” to overcome the 2008 recession (thus without any organic sustainable global economic growth). Yes, the Arab spring posed a potential threat to global oil supplies in early 2011, and there was a minor oil supply disruption due to the conflict in Libya. Yet, the US oil supplies remained at record levels and there was no real indication of any global oil shortage. Thus, just like in 2008, the price of crude oil seemed to be irrationally high in 2011 based on supply/demand fundamentals. Regulators have studied the 2008 oil price bubble and wowed to prevent future oil price bubbles by curbing speculation. However, based on the 2011 oil price action, it seems that these efforts to curb speculation were ineffective. This study argues that, since we still do not have enough information to understand how the 2008 oil bubble inflated; any regulation based on incomplete information may be ineffective. The academic literature mostly finds that speculation played only a minor role in the 2008 oil bubble, if any. For example, Hamilton (2009) doubts that speculation could have caused the oil bubble in 2008 at all; Kaufmann and Ullman (2009) conclude that both, changes in fundamentals and speculation, explain the oil price spike in 2008; Cifarelli and Paladino (2010) find that speculation played a role in crude oil market in 2008, although they caution that they had difficulties in their modelling and interpretation of their results; Kesicki (2010) finds that the impact of speculators during the 2008 oil bubble was small and short term relative to fundamental trends in supply and demand for physical crude oil. Till (2009) finds that speculative positions in the exchange traded oil derivatives have not been excessive in 2008. A recent OECD (2010) report on speculation in commodity futures acknowledges that the open interest in futures markets significantly increased during the period from 2006 to 2009, primarily due to the heavy inflows from the index funds. Masters (2008) finds that there was a high positive correlation between the rising oil prices and the open interest in 2008, which was his key argument in favor of speculation, specifically by the index funds. However, the OEDC (2010) report points out that a high correlation does not imply causation. Tokic (2010) takes a completely different view and blames the Fed for the rising oil prices in 2008. This study extends Tokic (2011) study, in which he argues that perhaps we should look at all participants in crude oil futures markets to determine whether there was any significant speculative activity during the 2008 oil bubble. However, Tokic (2011) analyzes only the positions of the Producer/Merchant/Processor/User category from the CFTC's Disaggregated Commitments of Traders (DCOT) Report and observes that commercial hedgers reduced their net short positions leading to the peak of the oil bubble in 2008. Thus, he raises the possibility that the commercial hedgers engaged in an unwilling positive feedback trading by short covering, which contributed to the rising oil prices leading to the peak of the bubble. In this study, we examine the positions of all categories of traders from the DCOT Report: Producer/Merchant/Processor/User, Swap/Dealers, Managed Money, Other Reportables, and Nonreportables. We aim to provide the full picture of how each category behaved during the bubble, so that we can better understand how the 2008 bubble inflated, and thus, aid regulators in their efforts to prevent another oil price spike, which we know can be devastating for the global economy and pose significant risks to the geopolitical stability.

#### Speculators increase oil prices- lack of buyers for additional oil supplies

Davidson 08 (Paul, Editor of the Journal of Post Keynesian Economics, July–August 2008 Crude Oil Prices: “Market Fundamentals” or Speculation? Challenge, vol. 51, no. 4, pp. 110–118 TM)

The price of crude oil as highlighted in the media is determined in the future markets on two international oil commodity exchanges—the New York Mercantile Exchange (NYMEX) and IntercontinentalExchange (ICE) in London—where the benchmark prices are determined for two crude oil grades: West Texas Intermediate and North Sea Brent. The Brent futures market price is used, in spot and long-term contracts, as a basis for evaluating much of the crude produced globally. The major oil-producing countries use the Brent for pricing the crude they produce, and therefore it is the basis for most of the crude destined for European and Asian markets. The West Texas Intermediate price is the benchmark for U.S. crude production. The Commodities Futures Trading Commission (CFTC), a U.S. government agency, is tasked with ensuring that the futures prices of commodities do not reflect price manipulation or excessive speculation. In January 2006, however, with crude oil future prices at approximately $60 per barrel, the CFTC decided to permit the ICE to allow trading of West Texas Intermediate as well as U.S. gasoline and heating oil futures in London. The CFTC has indicated that these ICE trades, even if done by U.S. traders, would be beyond its jurisdiction. (Moreover, some crude oil futures contracts are traded on over-thecounter electronic exchanges that are also not regulated by the CFTC.) Some observers have pointed out that since this CFTC decision on ICE futures in 2006, benchmark oil-futures prices have more than doubled. These facts support the possibility that speculation in oil has affected the price of oil. As early as July 2006, the U.S. Permanent Senate Committee on Investigations presented a report titled “The Role of Market Speculation in Rising Oil and Gas Prices.” Although the report did not attract much media attention, it stated that, after weighing the evidence, it appeared that, “speculators have expended tens of billions of dollars in U.S. energy commodity markets . . . [and] speculation has contributed to rising U.S. energy prices.” The committee report estimated that as much as $20 to $25 of the prevailing price of $60 per barrel was due to speculation. More recently, knowledgeable individuals have made statements that suggest the influence of speculation on crude prices. For example, according to a May 2, 2008, statement by the Qatari oil minister, despite spare production capacity, “OPEC will not increase production of crude oil because what is happening now is not an increase in oil demand, but heavy speculation on oil futures. That’s what’s making oil prices so high” (Shenk 2008). In an article by Daniel Canty, Abdalla Salem El-Badri, the secretarygeneral of OPEC, was quoted as saying, “There is clearly no shortage of oil in the market. OECD commercial oil stocks remain above the five-year average, with days of forward cover at a comfortable level of more than 53 days. U.S. crude inventories, meanwhile, rose by almost six million barrels last week (mid May), which is a further indication that oil supplies are plentiful.” The secretary-general noted that OPEC member countries continue to produce more than 32 million barrels a day and that OPEC’s spare capacity currently stands at more than 3 million barrels per day. To suggest why OPEC is not using its spare production capacity, he added, “Crude oil movements indicate that some OPEC Member Countries are unable to find buyers for their additional supply” (Canty 2008). The secretary-general also has been quoted in an article by E. Awhoti (2008) as saying, “Even though we see no shortage of oil in the market, since the middle of 2007 we have seen a major disconnect between oil prices and market fundamentals. A number of factors have contributed to this, but primarily [it is] the massive role that speculators now play in the oil market.”

#### **Speculation increases oil prices globally**

Davidson 08 (Paul, Editor of the Journal of Post Keynesian Economics, July–August 2008 Crude Oil Prices: “Market Fundamentals” or Speculation? Challenge, vol. 51, no. 4, pp. 110–118 TM)

To explain why the absence of any excess-supply adjustment is not evidence of the absence of a speculative force requires examining the “market fundamentals” argument in some detail. An article in The Economist (“The Oil Price Recoil” 2008) provides us with the basis for this analysis. The Economist article notes that some “$260 billion is invested in commodity funds, 20 times the level of 2003.” Since margin requirements in most commodity markets are typically less than 10 percent, these commodity funds could take positions in commodities equal to several trillion dollars— much of it on oil. Nevertheless, the article argues that it is not these huge commodity funds investments in oil futures that are driving up the price of oil. It notes, “Such speculators do not own real oil. Every barrel they may buy in the futures market they sell back again before the contract ends. That may raise the price of ‘paper barrels’ but not of the black stuff refiners turn into petrol.” The Economist also concedes that “it is true that high future prices could lead someone to hoard oil today in the hopes of higher prices tomorrow. But [reported] inventories are not especially full just now and there are few signs of hoarding.”1 The article continues with some interesting observations, however: “If the speculators are not to blame, what about the oil companies, which have failed to increase output in spite of record profits? . . . The oil price is set in a market. For Shell, Exxon et al. to hoard oil underground would be to leave billions of dollars of investment languishing unused.”Because the members of the Organization of Petroleum Exporting Countries (OPEC) produce 40 percent of total world crude oil, the Economist should have included the OPEC member states along with ExxonMobil and Shell as possible producers that might hoard oil underground. After all, OPEC decisions on the cartel’s daily crude oil production are probably the single most important determinant of the total amount of the “black stuff refiners turn into petrol” in the world market. As the Qatari oil minister and the secretary-general of OPEC have suggested, OPEC has decided not to change the amount of crude oil it supplies to refiners despite the tremendous rise in the price of oil over the past year—even though OPEC has existing spare capacity of 3 million barrels per day. The author of the Economist article, as well as Paul Krugman, has apparently missed or forgotten the implication of John Maynard Keynes’s General Theory writings on the Marshallian concept of “user cost” (1936, pp. 66–73). Keynes argued that user costs link present production decisions and future production decisions of profit-maximizing organizations—especially in the production of raw materials. Although Keynes uses copper mining in his discussion of user costs and raw-material production decisions, the same profit-maximizing principle can be applied to pumping crude oil out of the ground as it is to digging copper out of the ground. Keynes stated, “In the case of raw materials the necessity of allowing for user costs is obvious—if a ton of copper is used up today it cannot be used tomorrow and the value which the copper would have tomorrow must clearly be reckoned as part of the marginal cost” (1936, 73) of production today. In other words, if oil prices are expected to rise tomorrow, then producing a barrel of oil today involves the cost of forgone larger profits that could be obtained by holding the oil underground to produce tomorrow to sell at an expected higher price. Clearly such expectations of future oil prices should affect the oil producers’ decision on how much oil to produce today if they are interested in maximizing the return on already existing investments. In other words, the recognition of a user-costs factor means that both Krugman’s argument that higher prices due to speculation will induce an “excess supply” and the Economist’s assertion that producers will not hold oil reserves underground because this always means a lower return on investment already undertaken are not correct. The concept of user costs suggests that leaving more oil underground may enhance total profits on the producer’s investment if prices are expected to rise in the future (more rapidly than the current rate of interest). And what better indicator of future prices exists today than the benchmark oil price determined in the NYMEX and ICE futures markets? There is empirical evidence to suggest that oil producers do take the “user costs” of forgone future profits into account when deciding whether to produce today or tomorrow—especially when prices are expected to increase significantly in the future. In a study my colleagues and I did for the Brookings Institution (Davidson et al. 1974), we noted that, in 1971, after President Richard Nixon imposed temporary price controls on oil produced in the United States, the U.S. Geological Survey reported that the number of shut-in oil-producible zones on the U.S. outer continental shelf jumped from 14.3 percent of the total completions of oil producible zones in 1971 to 44.4 percent in 1972 and 44.5 percent in 1973, while the number of completed wells continued to grow by some 300 per year from 5,718 in 1971 to 6,421 in 1973. (By comparison, it should be noted that the shut-in ratio was 18 percent in 1965, and the trend moved steadily downward until 1972.) As noted in our Brookings paper, “This tremendous increase in readily available, but unused, productive capacity is compatible with the sudden appearance of large positive user costs as OPEC began to escalate oil prices worldwide.” Today if speculators in futures contracts in NYMEX and ICE are causing the escalation of the market price of benchmark crude oil, then the same user-cost incentives exist for multinational oil-producing companies and for OPEC members to limit production and leave reserves underground as long as they expect that oil prices will continue to rise at the phenomenal rates of the past few years. Furthermore, the Economist’s suggestion that current market price increases are merely the forerunner of further increases in demand outstripping supply merely exacerbates user-cost expectations. With some talking heads on television indicating that they expect the price of crude to reach $200 a barrel in the near future, it should be apparent that potentially significant user costs are in the minds of crude oil producers to encourage leaving oil reserves in the ground. In addition, it should be obvious that the rapid increases in oil prices have caused hedge funds, pension funds, and other large financial institutions, as well as individual investors, to place billions into oil commodity markets to hedge against inflation or to increase the value of their portfolios via market price increases. But, as the Keynes concept of user cost suggests, speculators on crude price increases not only may include hedge funds, but may also involve oil-producing companies and countries that recognize they must produce sufficient quantities of oil to prevent prices from rising so rapidly that the economies of their major markets collapse—and therefore kill the goose that is laying the golden egg for oil producers. On the other hand, recognizing that speculation has enhanced the rapid escalation of the market price, oil producers do not want to pump enough oil from existing underground capacity to squeeze out speculators and thereby reduce their user costs to zero—or even push user costs into negative territory!

#### High speculation in the status quo

Lenzer 12 (Robert, Editor and Columnist at Forbes, 2/27/2012 “Speculation In Crude Oil Adds $23.39 To The Price Per Barrel,” Forbes.com TM)

If there were no speculation in oil futures on commodities exchange, the price of a barrel of oil might be as low as $74.61- not more than the present price of $108.00 a barrel.

But, there is plenty of speculation as the possibility of strife in Iran, one of the globe's largest crude oil producers, pushes up the price of oil futures, which in turn impact the price of buying crude oil in the open market. As of February 23, 2012 "managed money" held positions in NYMEX crude oil contracts equivalent to 233.9 million barrels of oil- the equivalent of about one year's crude oil supply from Iran to Western European nations like France, Belgium, Greece, Italy and Spain. As Goldman Sachs believes that each million barrels of speculation in the oil futures market adds about 10 cents to the price of a barrel of oil, this means that in theory the speculative premium in oil prices due to speculation is as much as $23.39 a barrel in the price of NYMEX crude oil. In turn oil analysts believe that every $10 rise in the price of crude oil translates into a 24 cent rise in the price of gasoline at the pump. Using the 24 cent rise in the price of gasoline suggests that each dollar increase in a barrel of oil equals about $.56 per barrel. So, if a barrel of crude oil is $23.39 higher because of speculative action in the commodity markets- this translates out into a premium for gasoline at the pump of $.56 a gallon. Since gasoline in the northeast is about $3.68 a gallon, this suggests that without any speculation, the cost of a gallon would be only $3.12, a lot more favorable outcome. The trouble is that without a resolution of the threat of an attack on the Iranian nuclear bomb facilities, the tension communicated in newspaper headlines and television news shows is apt to drive the speculative interest even highe than 233.9 million barrels and so push up the price of crude oil per barrel. During the summer of 2008 when crude oil per barrel rose to $145 a barrel, the peak cost of a gallon of gasoline was at least $4.11. As prices skyrocketed gasoline usage declined, bringing down speculation, and thus the price of crude oil and gasoline. George Soros, hedge fund operator, took a massive short position in crude oil at $137 a barrel, and profited when the price subsequently fell.

### No Supply & Demand

#### Oil prices aren’t dictated by supply and demand- oil hoarding push prices higher

Walt 09 (Vivienne, award-winning foreign correspondent who has written for TIME Magazine since 2003, May 29, “Oil Is Plentiful, Demand Weak. Why Are Gas Prices Going Up?” [http://www.time.com/time/world/article/0,8599,1901446,00.html#ixzz20AAWEYt3](http://www.time.com/time/world/article/0%2C8599%2C1901446%2C00.html#ixzz20AAWEYt3) TM)

Storage tankers across the globe may be brimming with oil that no one is buying because of the global economic downturn, but the traditional laws of supply and demand don't always apply to oil prices. Drivers have faced rising prices at the gas pump in recent months, as investors and oil-producing countries hoard supplies in anticipation of a global economic recovery later this year. The 12 member countries of the OPEC cartel voted in Vienna on Thursday to maintain output at current levels rather than increase supplies in order to bring some relief to consumers, particularly in the gas-guzzling West. The OPEC oil ministers, whose countries account for about 40% of the world's entire crude-oil supply, also renewed their commitment to stick to their agreed quotas, rather than ship extra oil, as they began doing last April when several members ignored their agreed output limits. OPEC leaders, many of whose economies are heavily dependent on oil exports, have struggled to stabilize prices at a level that suits their own economic needs amid falling demand and rising supplies. Prices had rocketed to a record level of $147 a barrel last July before plummeting to $30 just five months later and beginning a new climb. (See pictures of South Africa's oil-from-coal refinery.) Oil analysts believe OPEC's decisions on Thursday could help push oil prices even higher; oil futures on the New York Mercantile Exchange have risen 36% in just two months, to about $63.46 a barrel on Thursday. And that appears to be on track to achieve targets set by OPEC leaders. Saudi Oil Minister Ali al-Naimi — OPEC's key power player — said Wednesday that oil prices ought to rise to between $75 and $80 a barrel by the end of the year. "Demand is picking up, especially in Asia," he told reporters puffing alongside him as he jogged through the streets of Vienna. "The price rise is a function of optimism that better things are coming in the future." The economic recovery Naimi so optimistically predicts would certainly be vital to oil-producing countries, whose own economies would be imperiled by a drawn-out recession. Oil demand in rich countries has crashed since the onset of the economic crisis last year, and is now at its lowest level since about 1981, according to the Paris-based International Energy Agency. U.S. oil inventories — the stored surplus — this month reached their highest level since the 1980s. And about 2.6 billion barrels are currently stored in commercial tankers around the world. "There is some risk we will run out of storage space in the next four to six weeks," says Simon Wardell, director of global oil at IHS Global Insight, an energy-forecasting company in London. To oil-rich countries that possibility evokes grim memories of 1998, when the Asian economic crisis sent demand plummeting, driving world oil prices down to $10 a barrel. "If we run out of storage it could prompt a collapse in the price," says Wardell. Oil producers might then choose to dramatically cut output in order to run down the surplus. (See pictures from Azerbaijan's oil boom.) Despite such dangers, investors and oil producers are betting that global demand will roar back, apparently hoping that the recession has already hit bottom. Over the past two months, investors have plowed billions of dollars into oil futures. If the U.S. and other major industrial economies rebound, oil supplies could be depleted because the recession has prompted producer nations to freeze hundreds of projects to open new oil wells or upgrade existing ones. In the oil-rich Niger Delta, a major Nigerian government offensive against rebels has seriously disrupted production for several weeks. Venezuela's Oil Minister Rafael Ramirez said in Vienna that his country could not afford to invest in major new oil exploration unless prices rise further. "We need a level of at least $70 [a barrel] to recuperate investment," he said on Thursday. Muhammad-Ali Zainy, senior energy analyst at the Center for Global Energy Studies in London, says oil demand could increase quickly once the recession ends, especially as China has begun to build up its strategic oil reserves. "We think the price is going to go up gradually," says Zainy. For those feeling the pain at the gas pumps, however, there is one piece of good news. Oil is unlikely to hit $147 a barrel again — at least not during the coming decades. The U.S. Energy Information Administration said on Wednesday that oil prices would likely rise to $110 a barrel by 2015 and $130 a barrel by 2030. By that time the world oil markets might once again follow the normal rules of economics.

http://money.cnn.com/2012/03/23/news/economy/oil-industry-gas-prices/index.htm

NEW YORK (CNNMoney) -- The oil industry recently laid out a set of proposals it believes will instantly lower gasoline prices. The proposals call for more domestic oil production, fewer environmental regulations, and for not raising taxes on the industry. They're basically what the Republican presidential candidates are calling for. But analysts say those ideas will do little to lower gas prices in the short term. Here's why: More drilling: The industry has long held that this is key to lowering prices, and "unlocking America's energy potential" is a theme all the Republican candidates are touting. The industry has studies saying that if it was allowed to drill off both the East and West coasts, on all federal land that isn't a national park and in Alaska's national wildlife refuge, it could produce another 10 million barrels of oil a day by 2030 -- double the nation's current oil output. Eighteen years is a long time to wait. But the industry says that if Obama merely announced such a plan, oil prices would drop overnight in anticipation of this new production. "Markets are driven by expectations," Jack Gerard, president of the American Petroleum Institute, said on a recent conference call. Saudi Arabia can't save us from high oil prices Gerard noted that oil prices fell $16 in the two days in 2008 after George W. Bush lifted a moratorium on drilling off the coasts, a moratorium that was effectively reinstated after BP's (BP) Gulf of Mexico disaster. But oil traders are skeptical. "Just because a policy is announced doesn't mean it can be easily or quickly attained, and the markets will discount that," said Addison Armstrong, director of market research at the brokerage Tradition Energy. Those against more drilling note that U.S. oil production has increased by about 15% since Obama took office, and prices have only gone up. Obama himself likes to take credit for this production increase, although actual federal acreage available for drilling is down slightly from the Bush administration. The extra production comes mostly from private land and is spurred by higher prices, new technology and the expanded use of hydraulic fracturing. Known as fracking for short, the process is highly controversial as many fear it is contaminating the ground water. Yet Obama has allowed it to continue mostly unfettered -- and has taken flack from the left as a result. In the medium term, it's hard to say what impact increased production from the United Sates would have on oil prices. Ten million barrels a day is a lot of oil, though critics say the industry would never be able to generate that much and note the potential high environmental costs of drilling everywhere. Plus OPEC might simply cut that amount of production to keep prices high. Either way, it's unlikely more drilling now would lower gas prices anytime soon. Fewer regulations: More regulations are indeed looming for the oil and gas industry. It's thought that Obama's Environmental Protection Agency will propose new standards designed to cut air pollution and global warming on both refineries and fuels. The oil industry says the new fuel standards alone could add anywhere from six to nine cents to a gallon of gas. Yet not implementing those regulations wouldn't lower the price of gas now -- analysts aren't expecting them to be put in place until after the election. Plus, it's uncertain they will really cost that much. "Historically, the cost impacts [of additional regulations] have been estimated to be higher than they really are," said Joseph Stanislaw, founder of J.A. Stanislaw Group, an energy and investment advisory firm. Less taxes: The American Petroleum Institute has used every chance it gets to rally against proposals from the Obama administration that would eliminate up to $4 billion a year in tax breaks for the oil industry. "No economist in the world will tell you gas prices can be reduced by increasing taxes," said API's Gerard. Speculators are driving up gas prices - Opinion Eliminating the tax breaks has been opposed by nearly every Republican politician as well. But while eliminating those tax breaks might be bad for oil company shareholders, it's hard to see how they would have much of a bearing on raising or lowering gas prices. What is driving prices: Fundamentally, what politicians on both sides of the aisle are missing is the fact that gas prices are not being driven by domestic policies. They are being driven by oil prices, which are in turn rising mostly on fears over a confrontation with Iran. "There's a lot of oil out there right now, but people are scared," said Stanislaw. "This is largely outside of the control of the United States."

## A2: Impact turns

### Modernization key to heg

#### Green Technology Key to Modernization Mulvaney, Ph.D., 2011(Dustin, NoDate, “Green Technology: An A-To-Z Guide,” <http://books.google.com/books?id=xg9aT6BA7FkC&pg=PA148&lpg=PA148&dq=green+technology+is+key+to+modernization&source=bl&ots=wknpAyxJ_6&sig=CY_J6YW683yuuivlaUlR81EsvaA&hl=en&sa=X&ei=ter6T8ziD4Pu2gXlyrTIBg&ved=0CEcQ6AEwAA#v=onepage&q=green%20technology%20is%20key%20to%20modernization&f=false>, GHK)

Ecological modernization (EM) is the realization that environmental problems are not apocalyptic in nature, but a challenge for social, technical, and economic reform that involves the transformation of core institutions of modernity, especially science and technology, production and consumption, politics and governance, and the market on local, national, and global scales. Thus, it is simultaneously an analytical approach, a policy strategy, and an academic environmental discourse. From a management perspective, ecological modernization can be defined as the movement of an organization or industry toward less environmentally destructive activities. Originating in Europe, ecological modernization makes the environment an actor in modernization theory and practice and ecological considerations as important as economic considerations in forging policy. In this approach, clean technology, including green technology, and innovation are key to economic progress. Rather than see the two as mutually exclusive, EM theorists argue that environmental sustainability, both by reducing consumption and widely using resources, is key to the maintenance and increase of economic competitiveness.

#### Modernization is Key to Hegemony

Davis, Cavalry Officer in the Department of Defense or the Army, 2008

(Daniel, 1-10-08, The Washington Times, “Modernizing the US Military,” <http://www.washingtontimes.com/news/2008/jan/10/modernizing-the-us-military/>, 7-9-12, GHK)

The next administration will be responsible for making some critical decisions regarding the future of America’s armed forces in general and for the Army in particular; get Army modernization wrong and we could unwittingly lay the foundation for our defeat on a future battlefield. Since shortly after Desert Storm, some of America’s senior military leaders have been seeking to modernize and transform the Department of Defense into a force capable of dominating all challengers in any future battle. At its core, this transformation seeks to exploit technology and link dispersed warfighting platforms and soldiers with a vast array of intelligence assets and sensors to enable friendly forces to maneuver to positions of advantage and rain devastating firepower down on the enemy. While some components of the Defense Department’s efforts are outstanding and promise significant advantage to future American forces, other elements are so far off the mark that if remedial actions are not taken, American forces could suffer a significant battlefield defeat in future war — a defeat that might otherwise be avoidable. The next administration will have the responsibility for setting Army modernization policy. It is therefore crucial to ascertain where each candidate stands on defense modernization because the decisions the eventual winner makes in the first 100 days in office will establish the type of Army we have for the next several decades. Though economic, social and foreign policy are of great importance, we must press each candidate to articulate their vision of Army modernization and how they’ll correct the deficiencies that currently plague our efforts. The lives of our soldiers and success or failure on future battlefields depends on getting this right.

### Renewables key to US military

#### Renewable Energy Makes Military Operations Cheaper, Safer, and SmarterWebber, Column Writer, 2012

(Alan, 3-20-12, “Column: High Gas Prices? Bring ‘em on!” <http://www.usatoday.com/news/opinion/forum/story/2012-03-20/oil-gas-price-energy-innovation/53673282/1>, GHK)

And it's not just in the private sector or our private lives. One of the leading areas of change is in the military, which is going green for more than just environmental reasons. The Navy has figured out that the "all-in" price of oil means that it's cheaper, safer and smarter to switch our war-fighting operations from fossil fuel to renewable resources. They're doing it because they have calculated the real cost of oil and figured out that embracing renewable energy makes sound economic and military sense.

#### Military Turns to Renewable Sources

Closson, Special to the Courier, 2012

(Stacy, 5-17-12, “U.S. Military Leading Way on Energy Strategy Frontier,” <http://www.fortcampbellcourier.com/news/article_59f9273e-a06e-11e1-b13e-001a4bcf887a.html>, GHK)

With respect to costs, high oil prices make defense operations extraordinarily expensive. The U.S. military is the biggest purchaser of energy in the country, and oil debt comprises almost half of the U.S. trade deficit. The majority of oil is used for operational fuel requirements for training, moving, and sustaining military forces and weapons platforms. As the Secretary of the Navy has testified, each $10 increase in the price of a barrel of oil costs the DoD an additional $130 billion annually. This is equivalent to losing almost the entire Marine Corps’ annual procurement budget. Developing new forms of energy can free up scarce resources for more pressing investments.

### AT: Oil spills

#### Collapse of the oceanic food chain is exaggerated

Gain 8 (12-16, Research refutes claims of imminent ecosystem collapse”, Gippsland Aquatic Network – GAIN, http://www.growfish.com.au/content ,asp?contentid=809)

Research conducted by an international team of scientists, including SPC’s Oceanic Fisheries Programme Manager, Dr John Hampton, and reported in a paper published this week in Science, refutes claims that oceanic ecosystems are on the brink of collapse. Although the new research finds significant decrease in abundance of some large pelagic (oceanic) fish stocks resulted from increased fishing, the picture is not nearly as gloomy as has previously reported. The paper, entitled “Biomass, size and trophic status of top-level predators in the Pacific Ocean”, is co-authored by Dr Hampton and three other well-known fisheries scientists: John Silbert of the University of Hawaii, Pierre Kleiber of NOAA Fisheries in Honolulu, and Mark Marunder of the Inter-American Tropical Tuna Commission (IATTC). Unlike the previous studies that have made exaggerated claims concerning the impacts of fishing, this study analysed all available data assembled by SPC and IATTC for Pacific tuna fisheries from 1950 to 2004, to estimate the impact that fishing has had on Pacific fish populations in the past 50 years. The analysis finds that the situation of different types of top predators, such as tuna and sharks, varies considerable. “Recent claims of catastrophic reduction in the biomass of top-level predators and the collapse of oceanic food chains have attracted widespread attention and provoked alarm among the lay public,” reports the paper. Dr Hampton notes, “Alarmist and exaggerated claims of stock collapses based on inadequate analyses and data have attracted a lot of attention, but the situation is more complex than that. There reports are dangerous not only because they are wrong, but also because the detract attention from the real management problems of facing pelagic fisheries in the Pacific.”

### Low Oil Prices-Bad for Econ

#### Low oil prices bad for global economy

Nelder 9 (Chris, Energy Futurist/Analyst/Writer, 3/4/09,Energy and Capital, The Sleeping Threat of Low Oil Prices, <http://www.energyandcapital.com/articles/oil-prices-opec/838>) DD

If you need any more proof that the markets are not an efficient discounting mechanism, look no further than the price of oil. Oil prices in the high $30s to low $40s are nothing short of a ticking time bomb under the world economy, but you wouldn't know it from watching the commodity markets. Once the global downturn slashed $100 off the price of a barrel, the issue of oil supply seemed to simply fall off the radar of market observers. Falling oil demand is all that anyone seems to care about, but we may pay dearly for taking our eye off the ball of supply.

#### Low prices mean low economy

Samuel 11(Stephanie, Christian Post Reporter,8/8/11,The Christian Post, Lower Gas Prices Come Amid Economic Woes,http://www.christianpost.com/news/lower-gas-prices-come-amid-economic-woes-53591/)DD It's an indicator that people are worried about the economy," said Kreutzer. He explains that oil traders are leaving the commodities market in anticipation of lessening demand. A drop in demand results when there is a drop in income. A similar situation occurred in 2008 when petroleum prices fell sharply. The drop was followed by a financial crisis and the $700 billion TARP bailout. Last week, despite congress breaking the debt ceiling stalemate, Standard and Poor's lowered the credit rating on the national debit from AAA+ to AA+ for the first time in history. News of a troubled U.S. economy led to a massive Wall Street sell-off that began late last week and continued into Monday. Some traders who are concerned about this dilemma are switching their investments to gold. Bloomberg reports that gold futures, seen by many as a safe bet in the midst of financial uncertainty, rose to just over $49, setting the record for biggest gains since March 2009

### Oil Key to Econ Growth

#### Oil and Natural Gas Industry Significant to U.S. Economy

Ryan, Energy Writer, 2010

(Jane, 11-4-10, “Energy Development: The Key to Economic Growth,” <http://energytomorrow.org/blog/energy-development-the-key-to-economic-growth/#/type/all>, GHK)

The oil and natural gas industry contributes significantly to the U.S. economy as one of the nation’s largest employers and purchasers of goods. Even in a struggling economy, America's oil and natural gas companies continue to provide well-paying jobs, revenue to governments and investment growth for millions of Americans—totaling an economic contribution that challenges Washington's idea of stimulus. Consider it the energy stimulus: $476 billion delivered to the U.S. economy in 2010— equal to roughly 60 percent of the 2009 federal stimulus. It's a stimulus that didn't need an act of Congress and which, with the right policies, can be repeated over and over—helping to drive broader economic recovery.

#### Oil is essential to the U.S. economy

Brooks, Managing Director – Energy Musings, 2011

(Allen, 11-7-11, “Musings From the Oil Patch,” <http://energy-musings.com/node/276>, GHK)

"First, the potential supply of North American natural gas is far bigger than previously thought," the report said. "It is now understood that the natural gas resources base is enormous and that its development, if carried out in acceptable ways, is potentially transformative for the American economy, energy security and the environment, including reduction of carbon and other emissions," the study said. "Second - and surprising to many - North America's oil resources also are much larger than previously thought," the council said. "These oil resources offer substantial supply for decades and could help the US reduce, though not eliminate, its reliance on imported oil." Third, the council said its analysis shows that natural gas and oil will be essential to the US economy "even as energy efficiency reduces demand and lower-carbon alternatives become more economically available on a large scale". "Moreover, the natural gas and oil industry is vital to the US economy, generating millions of jobs, widely stimulating economic activity, and providing significant revenues to government," the report added. In its final finding, the council advised: "The nation can realize the benefits of these larger resources by ensuring they are developed and delivered in a safe, responsible and environmentally acceptable manner."

#### America’s Oil and Natural Gas Industry Creates Jobs

Energy Tomorrow, 2012

(Energy Tomorrow, NoDate, “Job Creation,” <http://energytomorrow.org/job-creation/?gclid=CMifq_afjLECFQxshwodNEi_jg#/type/all>, GHK)

America's oil and natural gas industry supports 9.2 million men and women across the United States in a wide range of highly skilled, well-paying professions. In fact, oil and natural gas industry exploration and production wages are more than double the national average. An analysis of API's public data, independent research and corporate annual reports finds that the industry distributed $176 billion in wages paid to U.S. employees, plus benefits and payments to oil and natural gas leaseholders.

#### America’s Oil and Natural Gas Industry Helps U.S. Economy

Energy Tomorrow, 2012

(Energy Tomorrow, NoDate, “Job Creation,” <http://energytomorrow.org/job-creation/?gclid=CMifq_afjLECFQxshwodNEi_jg#/type/all>, GHK)

With the right government policies in place, the oil and natural gas industry can create more American jobs that can help grow the U.S. economy, generate substantial new revenues for government and provide greater energy security for our nation. In fact, with increased access to U.S. oil and gas resources we can create 1 million new jobs in the next ten years alone. To put that in perspective, that would provide enough jobs for nearly every citizen of Rhode Island. A recent study by Wood Mackenzie found that by 2030, nearly 1.4 million new jobs could be added through policies which encourage development of America's oil and natural resources, and facilitate Canadian oil sands production through the development of Keystone XL and other related piplines. A few examples are as follows: Development of the Marcellus Shale alone could create 160,000 jobs in Pennsylvania, 20,000 jobs in New York and 30,000 jobs in West Virginia by 2015. The opening of Florida to exploration and development could result in up to 100,000 new Florida jobs by 2016--just with increased access to federal areas within the Gulf of Mexico. U.S. State Department approval of the Keystone XL pipeline could generate nearly 85,000 jobs by 2020

#### Energy Industry Key to Economy

HoumaToday, Community Associated Press, 2012

(HoumaToday, 1-24-12, “Oil Industry is Key to Our Economy,” <http://www.houmatoday.com/article/20120124/LETTERS/120129857>, GHK)

We need to support our energy industry if we are going to pull our state’s economy out of the doldrums of the recession, the oil spill and the moratorium on drilling. Yet we still hear calls from the administration for increased taxes on this key industry. I know I will be listening closely to the state of the union address to see whether our president realizes that the energy industry can be a key element in job creation and economic stimulus. It would be a 180-degree turnaround for this administration, but it would sure help our economy here in Louisiana.

### A2: High Oil Prices 🡪 Inflation

#### High oil prices don’t cause inflation – alt causes

Harding, 12

(Jeff, principal of Montecito Realty Investors, 2/28, Minyanville, “Debunking the ‘High Oil Prices = Recession’ Fallacy,” <http://www.minyanville.com/trading-and-investing/commodities-and-options/articles/oil-gas-oil-price-gas-price/2/28/2012/id/39626>, Accessed: 7/9/12, GJV)

Take price increases of oil and gasoline. It doesn't cause price inflation (i.e., all prices rise). Instead it's a supply and demand thing. When OPEC jacks up oil prices, people spend more on gas and less on other things. The consumer goods they don't buy decline in price. Money is redirected by market forces to petroleum producers who are incentivized to discover and produce more oil. Ultimately, under normal circumstances, prices come down. This process is a bit distorted because we have a cartel-controlled market. But, if OPEC keeps prices too high, people reduce consumption, cartel revenues go down, and OPEC reduces prices to stimulate consumption. This is what happened in the current business cycle. It is the same with recessions and oil prices. Each of the recessions we've had in the last 40 years can be adequately explained by causes other than oil/gas prices. For example, while oil/gas prices shot up prior to the 2008 Crash, no one suggests that was a cause of it. Rather we know that oil prices went up as a result of a fiat money-fueled boom that drove up all commodity prices.

# Aff

## A2: Uniqueness

### Oil Prices Dropping

#### Oil prices hit 8-month low

Kahn 6-28 (Chris, AP Energy Writer, "Oil prices drop to eight-month low; pump prices fall again," http://www.dailycomet.com/article/20120628/WIRE/120629608?p=1&tc=pg)

The price of oil hit an eight-month low today as hopes dimmed for a solution to Europe's financial crisis. Benchmark U.S. crude lost $2.52, or 3.1 percent, to end at $77.69 per barrel in New York. That's the lowest price since Oct. 4. Oil traders also took their cue from U.S. stock markets, which were sharply lower for most of the day. Declining oil prices hold the promise of lower pump prices for drivers. The nationwide average has dropped nearly 57 cents in less than three months and is now $3.369 per gallon, according to auto club AAA, Wright Express and Oil Price Information Service. Gas hasn't been this cheap since Jan. 7. Oil has dropped about 25 percent since May 1.

#### Oil prices will drop below $3 by fall

AJC 6-22 (The Atlanta Journal-Constitute, "Expect gas prices to fall below $3," http://blogs.ajc.com/business-beat/2012/06/22/expect-gas-prices-to-fall-below-3/?cxntfid=blogs\_business\_beat)

Higher oil production, an existing ample supply of fuel, falling crude oil prices, lukewarm consumer demand and a drop in contracts for wholesale delivery of fuel to gas stations in the fall are the right ingredients for a further drop in gas prices. Barring any unforeseen calamity that might disrupt production or distribution, such as a hurricane that would interrupt delivery from the Gulf of Mexico or block tankers from arriving in Savannah, or a major conflict in the Middle East, the price trend should continue, even with the arrival of summer and more vehicles on the road for vacations. “[T]he market is suggesting gas below $3 by Halloween, and certainly by Thanksgiving,” Tom Kloza of the Oil Price Information Service, told USA Today. Some experts, however, note that gas prices typically drop in the fall before rising again as winter fuel demands kick in.

#### Oil prices are dropping – less exports

Gardner and Rampton 6-27 (Timothy, Energy & Environment Correspondent, and Roberta, Correspondent at Reuters, "Falling oil prices put Iran over U.S. sanctions barrel," http://www.reuters.com/article/2012/06/27/us-usa-iran-sanctions-idUSBRE85Q06520120627)

(Reuters) - For most of this year, the threat of tough U.S. sanctions on Iran, the world's third-largest oil exporter, helped push crude oil prices higher and higher, adding a menacing headwind for struggling global economies. But in the past few weeks, a combination of higher output from Iran's rival Saudi Arabia and economic troubles in China and Europe have pushed oil prices down 25 percent, putting the threat of sanctions back squarely on Iran. As June 28 approaches - the day the law allows U.S. President Barack Obama to enforce sanctions on countries that do oil deals with Iran's central bank - Washington is revving up efforts to tighten the squeeze on Tehran. Lawmakers in Congress hope to finalize in July a new package of sanctions aimed at further crippling Iran's oil revenues after international talks in Moscow last week failed to convince Tehran to scale back its nuclear program. "Thanks to Saudi production increases and the slump in Europe, it appears that we can have our cake and eat it too," said Suzanne Maloney, a senior fellow at the Brookings Institution's Saban Center for Middle East Policy. "We can exact a painful price on Tehran for its recalcitrance and avoid any blowback to our own economy, at least in the near term," Maloney said. Countries in the West believe Iran is working on building nuclear weapons, while Tehran has maintained its nuclear program is strictly for civilian purposes. Iran's oil exports have fallen as much as 1 million barrels per day, worth about $90 million as the sanctions and an EU embargo starting July 1 push its crude customers to seek alternatives, according to industry sources. Iran, OPEC's second-largest oil exporter, has a reserve fund of $80 billion to $100 billion that can shield its leaders from the drop in revenues, analysts say, but that cushion only pushes sanctions backers to turn up the pressure.

### Oil Demand Low

#### Oil prices dropped due to weak oil Demand

APP 12 (6/26/12,Finance, Oil Prices Slide on fears of weaker demand,http://finance.ninemsn.com.au/newsmarket/aap/8489459/oil-prices-drop-despite-output-cuts) DD

World oil prices have dropped as concerns over weak demand stemming from Europe's debt crisis largely offset production stoppages in the Gulf of Mexico and Norway."The oil market started the week in negative territory... tracking losses in the global equity markets," said Sucden Financial Research analyst Myrto Sokou. "Market sentiment has been hurt amid renewed concerns about the uncertain economic conditions in the eurozone ahead of the crucial European Union summit meeting on Thursday and Friday."

#### Economic problems decreased oil demands

Resource Investing News 12 (6/26/12, The Street, Oil Market Update, http://www.thestreet.com/story/11600438/1/oil-market-update-june-26-2012.html)DD

Oil fell below $79 a barrel on concerns about Europe's economic and financial situation. However, the drop was limited somewhat by a supply disruption from a storm that shut down approximately a quarter of the Gulf of Mexico's crude output. In London, Brent crude for August delivery was down 97 cents at $90.01 a barrel on the ICE Futures Europe exchange. By early afternoon on Monday, benchmark oil for August delivery was down 85 cents at $78.91 a barrel in trading on the New York Mercantile Exchange. Crude has plunged from $106 in less than two months amid indications of lagging economic growth and decreased oil demand from Europe and China. Investor attention will be focused on a European Union summit this week; France, Germany, Italy, and Spain have agreed to push for a growth package worth up to $167 billion aimed at spurring the region's weakening economy. Capital Economics expects Brent crude to fall as low as $70 per barrel over the next 18 months..

#### Oil demand is low

Lawler and Pachymuthu 12 (6/22/12 Alex, Reporter, Luke, Reporter Reuters, Oil at 18-month on weaker demand outlook,http://in.reuters.com/article/2012/06/22/markets-oil-idINDEE85L06H20120622)DD

(Reuters) - Oil fell to a 18-month low below $89 a barrel on Friday and was heading for its biggest weekly loss in about a year as reports suggesting slowing economic growth around the globe signalled weaker demand, while supply is ample. A downgrade of the credit ratings of 15 of the world's biggest banks by ratings agency Moody's to reflect the risk of losses they face from volatile capital markets activities also weighed on commodities and equities. "Manufacturing is a key indicator of oil demand, and based on the data coming out of the United States it doesn't look good, even though prices have been coming off," said Ben Le Brun, a Sydney-based market analyst at OptionsXpress.

king at more quantitfied and sure data, US stockpiles decreased slightly last week. Inventories probably dropped 1.75 - 1.9 Mb in the week, according to analysts, but the final data will only come 5 July, from the Energy Department. US gasoline inventories, highly predictably rose last week, by about 1 Mb according to analysts and this trend may continue depsite the start of the traditional "summer driving season", more especially because US gasoline demand is on a long downward slope, and refineries just as traditionally step up operations at that time, from Memorial Day at the end of May to Labor Day in early September. ¶ All kinds of post facto spin can be put on the double-digit jump in oil prices over recent days - but its survival value is low. The big test of credibility is coming, and with only a few drivers able to save the price bulge - probably Iran, possibly the European crisis - the way forward for prices heads South.

#### Oil demand falling

AP 6/14

(AP, worldwide news source, 2012 “OPEC moves to bridge Saudi-Iran rivalry” [http://www.businessweek.com/ap/2012-06/D9VCSTB00.htm MGE 7/10/12](http://www.businessweek.com/ap/2012-06/D9VCSTB00.htm%20MGE%207/10/12) MDRJ)

Plentiful supply and weakening demand from the United States, China and the European Union have caused prices to sink more than 20 percent over recent months, with U.S. benchmark crude now about $83 a barrel and Brent, used to price international varieties of crude, below $100 a barrel. "Relative to a year ago, global demand for oil is weaker ... while supply is robust," analyst Stephen Schork said in a research note Wednesday. Iran and its backers have been usually defeated by Saudi Arabia -- OPEC's powerhouse that accounts for nearly a third of the organization's production -- and its Gulf supporters, and Naimi signaled ahead of Thursday's meeting that his country was not prepared to cut back output . "When customers come, what do you do?" he asked reporters. "They say we want oil -- what do you do? "You give it to them. That's the business we are in."

#### Oil consumption the lowest in 12 years

Crooks ’12

(Ed, Financial Times Writer, 3/1 “ US crude oil imports fall to 12-year low,” , Financial Times, <http://www.ft.com/cms/s/0/4611795a-63bb-11e1-9686-00144feabdc0.html#axzz1yZCgLaGi> 7/10/12, MDRJ)

US crude imports have fallen to their lowest level for a decade as a result of weak demand and growth in domestic production, making the economy more resilient to oil price rises. The US imported 8.91m barrels a day of crude oil last year, according to the US Energy Information Administration, the lowest amount since 1999. More Imports as a share of US oil consumption dropped to 44.8 per cent, the lowest proportion since 1995, down from a peak of 60.3 per cent in 2005. Rising fuel prices, driven by tensions with Iran, have become a big political issue in the US and raised concerns that the economic recovery could be derailed.

#### Demand for oil is lowering now

Yergin ’12

(Daniel, writer for Foreign Policy Magazine, How Is Energy Remaking the World?, FP, issue, http://www.foreignpolicy.com/articles/2012/06/18/how\_is\_energy\_remaking\_the\_world)

Another major story is the changing picture of global demand. Oil consumption may be destined to continue to rise in emerging markets, but not in the traditional major consumers. U.S. oil demand, in fact, is down about 10 percent since 2005. Simply put, the United States and other developed countries have hit "peak demand." An overwhelming share of respondents are convinced this is mainly a lasting structural change -- the product of more efficient automobiles and shifting demographics -- though, as one noted, it is "exacerbated by recession." Over the past few years, governments have heavily promoted renewable energy sources such as solar and wind. The FP Survey respondents believe renewables will grow dramatically as a percentage of U.S. energy consumption -- nearly tripling by 2030. Wind energy alone will grow fivefold, they suggest, while solar energy will grow an astonishing 30-fold. But renewables are still growing from a very small base. Thus, by 2030, the respondents estimate, oil, natural gas, and coal will still account for 69 percent of U.S. energy, compared with 82 percent in 2011. Natural gas will gain markets, while coal will experience the steepest relative drop in market share.

#### Oil Demand is low now – predictive evidence

Bird, 7/10

(David, writer for NASDAQ, 2012, “U.S. Oil Use Seen Hitting 15-Year Low,” NASDAQ, <http://www.nasdaq.com/article/us-oil-use-seen-hitting-15-year-low-20120710-01302>, 7/10/12, MDRJ)

U.S. oil demand will drop by 155,000 barrels a day, or 0.8%, to a 15-year low of 18.68 million barrels a day this year, government forecasters said Tuesday. The drop projected by the Energy Information Administration is twice the size of a decline of 75,000 barrels a day, or 0.4%, the EIA forecast a month ago. The decline follows a 1.8% fall in 2011 and would be the sixth drop in the past seven years in consumption in the world's biggest oil user. Demand is expected to rise by 0.4%, or 70,000 barrels a day, in 2013, to 18.75 million barrels a day, but that's 130,000 barrels a day below the June forecast for 1.1% growth. The EIA lowered its forecast for 2012 growth in real U.S. gross domestic product to 2% this year from a forecast of 2.2% in June. The 2013 growth rate estimate was slashed to 1.9% from 2.4% in the June forecast. The EIA's estimate for oil demand in the 2012 second quarter was cut by 150,000 barrels a day, or 0.8% from a month earlier. The EIA said year-on-year demand fell in the April-June quarter, to 18.55 million barrels a day, the lowest for the quarter since 1997 and a decline of 200,000 barrels a day, or 1.1%, from a year earlier. The EIA reduced its outlook for third-quarter and fourth-quarter demand by 0.5% and 0.4%, respectively, from the June forecast, and sees demand up 0.7% from a year earlier for each of those quarters. U.S. "oil demand is expected to turn around from the decline seen in the first six months of 2012 to an increase during the second half of this year, due mainly to higher distillate fuel consumption as the industrial sector continues to grow and heating demand in the fourth quarter is expected to be near normal levels," said Adam Sieminski, EIA administrator. "Gasoline demand, however, remains unchanged from the same period last year as continued increases in vehicle fuel efficiency offset modest growth in highway travel."

#### Oil demand is falling – prices match

Gulf News 6/24

 (News source, 2012, “Oil near $91, up from 18-month low; as Gulf storm builds” Gulf News [http://gulfnews.com/business/oil-gas/oil-near-91-up-from-18-month-low-as-gulf-storm-builds-1.1039485 7/9/12](http://gulfnews.com/business/oil-gas/oil-near-91-up-from-18-month-low-as-gulf-storm-builds-1.1039485%207/9/12), MDRJ)

Reflecting investor caution, volumes were subdued, with Brent trading 4.2 per cent below its 30-day average and US crude down 10.4 per cent also from its 30-day average. Early on Friday, oil and other commodities and global equities came under pressure after the ratings agency Moody’s downgraded the credit ratings of 15 of the world’s biggest banks to reflect potential losses from volatile capital markets. On Thursday, oil futures tumbled as data showed US factory output grew at its slowest pace in 11 months in June, business activity across the euro zone shrank for a fifth straight month and Chinese manufacturing contracted for an eighth month. STRONG SUPPLY While oil demand prospects are dimming, supply of oil remains ample. The Organisation of the Petroleum Exporting Countries is pumping about 1.6 million barrels per day (bpd) more than the demand for its oil and its own supply target, Opec figures show. Much of the extra oil has come from top exporter Saudi Arabia, as well as from an export capacity expansion in Iraq and a recovery in Libyan output. At its meeting last week, Opec agreed to keep its oil output limit at 30 million bpd, with several members urging the Saudis to cut back supplies to reach the target. “We are heading for a weak third and fourth quarter, so prices could go a lot weaker,” said Leo Drollas, chief economist at the Centre for Global Energy Studies. “The Saudis at the end of the day will have to cut back themselves.”

### Global Oil Demand Low

#### Global Oil demand is low

Turkish Weekly 12 (3/12/12, Turkish Weekly, IEA expects lower global demand in Second Quarter of 2012,http://www.turkishweekly.net/news/133995/iea-expects-lower-global-oil-demand-in-second-quarter-of-2012-.html) DD

Global oil consumption will reach a low of 88.6 million barrels per day (bpd) in the second quarter of 2012, the International Energy Agency (IEA) said in its report on oil market, published on Thursday. According to IEA expectation, weak seasonal products demand along with high prices and a stuttering economic recovery will contribute to the fall in global oil consumption. Agency expects the strenghthening of demand through end-2012 as economic growth accelerats

#### Oil Demand is Down

Future Money Trends 12 (3/28/12, Future Money Trends , Why Oil Demand is Down and Price are Up, http://www.futuremoneytrends.com/index.php/category-table/143-why-oil-demand-is-down-and-price-are-up)DD

Oil demand is down 6% in the past 12 months and inventories are at 6 month highs. What these numbers show you is that the economy is not in recovery, demand for oil is down, yet the price keeps rising. This is a result of the currency itself losing value, and our warning to all who will listen, is that this is a trend that will continue. If there is one thing that you can count on, it is that the central banks will keep printing. Remember, deflation is their enemy

#### Oil demand is decreasing

RTTNEWS 12 (6/13/12, RTTNEWS, Uncertain economic Outlook May Hamper Oil Demand- IEA, http://www.rttnews.com/1905401/uncertain-economic-outlook-may-hamper-oil-demand-iea.aspx?type=fts&utm\_source=google&utm\_campaign=sitemap)DD

(RTTNews) The International Energy Agency nudges down its global oil demand forecast for 2012, citing uncertainty over summer power sector oil demand and non-OECD stockpiling. The IEA, in its monthly Oil Market Report released today, nudged down its 2012 oil demand growth forecast to 89.90 barrels per day (mbd) as a lower GDP sensitivity this month overshadows uncertainty over summer power sector oil demand. The Paris-based agency said that OPEC supply edged lower in May, off 20,000 bd, to 31.87 mbd, with reduced output from Saudi Arabia and Iraq offsetting higher production in Angola, Nigeria and Libya

### Long-Term Oil Demand Low

#### OPEC lowers oil demand for 2013

ZHDANNIKOV 12 (DMITRY, journalist for Reuters, 6/11/12, The Global and Mail, OPEC sees 2013 oil demand growth slowing, <http://www.theglobeandmail.com/report-on-business/international-business/european-business/opec-sees-2013-oil-demand-growth-slowing/article4405265/?cmpid=rss1>) DD

World oil demand growth will slow in 2013 from the already weak 2012, OPEC said on Wednesday, citing Europe’s debt worries, a faltering U.S economic recovery and deceleration of growth in emerging markets. The Organization of the Petroleum Exporting Countries (OPEC), which produces a third of global oil, said healthy output levels from non-OPEC producers next year would be enough to cover the modest growth in demand without the need for OPEC itself to increase output. “Besides the euro zone crisis, geopolitical tensions in the Middle East, the contraction of manufacturing in the U.S. for the first time since 2010 and decelerating economic growth in emerging markets have been fuelling uncertainties regarding global economic growth,” OPEC said in a monthly report. OPEC left its 2012 world oil demand growth forecast unchanged at 0.9 million barrels per day and said growth in 2013 would slow to 0.82 million bpd. Demand for OPEC’s own crude is expected to average 29.6 million bpd in 2013, almost 2 million below its June production levels of 31.36 million. OPEC also cited secondary sources as saying Iranian production was down to 2.963 million bpd in June, the lowest in more than 20 decades, while Saudi Arabia had ramped output back to above 10.1 million bpd.

#### Long-term oil demand drops by 11%

Young 12 (Angelo, Reporter for IBM, 6/11/12, International Business Times, OPEC Sees Global Oil Demand Declining 11% Next Year,http://www.ibtimes.com/articles/361827/20120711/opec-world-oil-demand-prices.htm)DD

Global oil demand into 2013 will remain below current production output levels. OPEC maintained its forecast of 0.9 million barrels per day for the year and predicted that next year's daily average demand would decline 11 percent to 0.8 bpd. "The oil market in 2012 has been strongly impacted by the great uncertainty in the global economy, particularly from the OECD countries," said the monthly oil market report, referring to the 34-member Organisation for Economic Co-operation and Development. "The world economy is continuing its subdued recovery, and prospects remain fragile. In the OECD, the real economy still lacks momentum, while growth levels in the emerging economies remain largely dependent on exports.

### Oil Companies –Oil Demand

#### OPEC lowered oil demand because of econ

SAPA 12 (3/11/12, Business Report, OPEC trims oil demand forecast,http://www.iol.co.za/business/international/opec-trims-oil-demand-forecast-1.1253588) DD

The OPEC oil cartel on Friday trimmed its 2012 global oil demand growth forecast for the second time in two months because of worries about developed countries' economies and higher crude prices. The Organization of Petroleum Exporting Countries now expects daily demand this year of 88.63 million barrels per day, down from its forecast a month ago of 88.76 million bpd, it said in its March monthly report.

#### OPEC cuts oil demand

Espana and Zhdannikov, 2012( Zaida & Dmitry, journalists for Reuters, 3/9/12, Reuters, OPEC pumps record volumes despite demand worry, http://www.reuters.com/article/2012/03/09/us-opec-oil-idUSBRE8280LO20120309)DD

The Organization of the Petroleum Exporting Countries (OPEC)retained its view that world oil demand will grow by 900,000 barrels per day (bpd) this year, unchanged from last month, but warned the weak pace of growth in developed economies could crimp global appetite for oil. "The weak pace of growth in the OECD economies is negatively affecting oil demand and imposing a high range of uncertainty on potential consumption growth", OPEC said in its monthly report. "Although U.S. economic data points toward a better performance, the situation in Europe along with higher oil prices has resulted in considerable uncertainties on the future oil demand for the remainder of the year." OPEC, the source of more than a third of the world's oil, cut its forecasts for world oil demand growth last month on fears a struggling economic recovery in developed economies could offset strong demand from China and India.

#### IEA cuts forecast for Oil Demand

Nguyen 12 (Lananh, Reporter who specialize in crude and refined products, 3/13/12, Businessweek, IEA Cuts 2012 Oil Demand Forecast on ‘Darkening’ Growth,http://www.businessweek.com/news/2012-02-13/iea-cuts-2012-oil-demand-forecast-on-darkening-growth.html) DD

Feb. 10 (Bloomberg) -- The International Energy Agency cut its 2012 global oil demand forecast for a sixth month as a “darkening” economic outlook reduced prospects for growth amid supply concern following sanctions on Iranian crude.“It’s a pretty remorseless picture of decline for oil demand throughout the OECD,” David Fyfe, head of the agency’s market and industry division, said in a telephone interview from Paris. “These are mature markets, in which industry recovery is stuttering, and moving into recession in the case of Europe.” Consumption will drop in member nations of the Organization of Economic Cooperation and Development this year as Europe’s sovereign debt crisis slows growth, according to the IEA. Brent crude, which advanced 9.3 percent this year, dropped 1 percent following the IEA demand revision to $117.38 a barrel. Prices were lifted by a European Union ban on Iranian crude imports, which will take effect in the summer and concern that Iran will retaliate against the embargo.

#### Major oil companies note decreased oil demand

Roberts 11 (Christi, Reporter for Annuity News Journal,8/1/11, Annuity News Journal, Decreasing Oil Demand Sparked by High Crude Oil Prices, http://www.annuitynewsjournal.com/decreasing-global-oil-demand-sparked-by-high-crude-oil-prices/)DD

Three of the world’s major players in the oil industry, Royal Dutch Shell, ConocoPhillips and British Petroleum, have noticed an ongoing trend of diminished demand and rationing in several regions of the world. The oil giants claim that the high price of crude oil imposed by the markets is responsible for this decrease in demand. Crude oil is the commodity that is most heavily traded in the world’s exchange markets. Heating oil and gasoline are crude oil derivatives that are also traded to a great extent and are thus very vulnerable to high oil prices. Fund managers and financial analysts are following the developments surrounding oil’s current economic process (named “demand erosion” by experts) with great interest. This reaction to the high price of crude oil is manifested by energy efficiency measures and the recent willingness of some nations to tap into their strategic oil reserves.

### Oil Prices Risk Collapse

#### Oil prices are on the brink of collapse

MacKillop 7/5 (Andrew MacKillop is an energy and natural resource sector professional with over 30 years experience in more than 12 countries. - Oil Prices: Ever Closer To The Brink (2012)- [http://www.forexpros.com/analysis/oil-prices:-ever-closer-to-the-brink-128678](http://www.forexpros.com/analysis/oil-prices%3A-ever-closer-to-the-brink-128678))

Outside US oil markets (because of the midweek Independence Day holiday), the upward bidding war is likely to run one or two, or even 3 or 4 trading days longer. Doing this, oil bulls are certainly shifting the goalposts - they are pushing them to the proverbial cliff face. ¶ Oil has surged in serial killer style for days, starting June 29. It has surged on speculation that central banks from the US, Europe, China and even India and Brazil will ease monetary policy to spur growth. The European debt-and-deficit bailout programs, a now excruciatingly old story, rolls on as the numbers always get bigger and "federal Europe" is rolled out in the Powerpoints if not in reality, but it powerfully aids the task of talking up oil. An even older oil story - Iran nuclear sanctions - wheels itself back on stage from time to time. ¶ After a 9.3% jump on 29 June for WTI, prices gained as much as 4.4% more on 3 July as the European Central Bank is forecast to cut interest rates this week - and has almost zero choice between leaving them on hold, or "slashing" them by 0.25pc. Anything plays for higher oil prices at these moments: Obama's healthcare vote was useful for oil bulls, why that was so isn't too clear. A state-owned newspaper in China said the time is now right to help China's banking sector. Iran fired several 1970s-vintage missiles during a three-day military exercise as oil analysts remembered that Iran has threatened to block tanker traffic in the Strait of Hormuz in reprisal for oil and banking sanctions. Norway's oil workers selectively struck at some North Sea installations. The weather was so bad in Europe heating oil sales might show some unusual demand. Its all good for oil!¶ The big driver was the easiest to identify. Oil market players, like their equity trading cousins have largely rebuilt their risk appetite, as anticipations of further monetary easing grow, almost worldwide, simply because the economic outlook is so bad, worldwide. For the European oil market players, the playact of threats to market supply, from Iran, are specially put in vogue, this time with the claim that as sanctions against Iran bite, Europe will run short of oil.¶ The People’s Bank of China may cut lending reserve requirements to raise liquidity in the banking system, according to the PRC owned China Securities Journal, published by the official Xinhua News Agency. In a coordinated move, the central bank cut interest rates on June 7, a day after the Journal published a commentary urging the move. Oil analysts focusing this news have totally missed the fast boat to China - weeks of Chinese oil buying as prices fell, and a quick topping up of both commercial and strategic crude oil reserves. As and when, and as long as oil prices rebound, this buying will shut down fast.¶ The EU27 embargo on Iranian oil took full effect on July 1, supposedly after exemptions on some contracts and oil settlement and insurance operations ended, which on further probing shows is as clear and certain as any European debt bailout, to date. Iran’s crude exports may drop to about 1 million barrels a day, Goldman Sachs said in a 2 July report, depriving global importers of around 1.15 to 1.25 million barrels a day (Mbd) on a June basis. The main problem - here - is that even with Iran out of the market by that amount of oil, the OPEC group is producing oil at record rates, at least 10% over its official maximum collective quota rate, to a most recent estimate of 31.85 Mbd according to the IEA. And crude oil has a way of leaking out and across frontiers.¶ Iran’s parliament is discussing a bill to close the Strait of Hormuz to oil tankers operating for or linked to countries applying the EU's sanctions, but the real capability of Iran closing the Strait for more than 1 day is low, at best. ¶ Loo US oil market not key

### Oil prices volatile now

#### Hypersensitivity means the DA is non-unique

McGauley, 12

(Chris, staff writer for The Missouri Miner, March, 15th, The Missouri Miner, “Rising Gas Prices Around the Nation Raise Questions” <http://mominer.mst.edu/2012/03/05/rising-gas-prices-across-the-nation-raise-questions/> July 2nd, MDRJ)

Iran has responded by halting all exports to Britain and France, while threatening to cut off the rest of EU countries before the EU’s July 1 deadline. Iran still has an ace, because it borders the Strait of Hormuz – a strategic waterway that sees 20 percent of the world’s oil float through it. By restricting access to this waterway, Iran could negatively affect the rest of the world’s oil supplies, as Iran has threatened to do. The crude oil markets predict and prepare for the future based on current trends, and therefore the markets are a little haywire right now. Having little precedent for the current world-political climate, the markets are erring on the safe side and raising prices because of the uncertainty of oil futures. Because Iran has prevented the inspection of developing nuclear facilities by UN personnel, international efforts are being undertaken to investigate wide-spread suspicions. These efforts are throwing the international crude oil markets out of whack, caused by speculation about the future. These markets affect the price refineries can purchase and sell crude oil products, and therefore directly affect your pocket book.

#### Strong risk of oil price spike now – positive feedback cycle

Monaghan 4/10/12(Angela Monaghan is the Telegraph's Economics Correspondent - Threat of oil price spike is on a par with eurozone debt crisis, ITEM warns - http://www.telegraph.co.uk/finance/newsbysector/energy/oilandgas/9194325/Threat-of-oil-price-spike-is-on-a-par-with-eurozone-debt-crisis-ITEM-warns.html)

¶ The Ernst & Young ITEM Club said that should heightened political tensions in the Middle East push the price of oil to $150 (£94) a barrel from its current level above $120, the Government would also be forced to borrow more and there would be a greater risk of an early interest rate hike.¶ The risk of a further spike is being taken very seriously by the Bank of England, whose governor Sir Mervyn King has already warned publicly that disruptions to the supply of oil from Iran or Nigeria would likely push inflation up.¶ Andrew Goodwin, senior economic advisor to ITEM, said the threat posed to the UK economy by an oil price spike was now "on a par" with that posed by the eurozone debt crisis. "The eurozone is still very much a live issue and I certainly wouldn't write it off yet but the oil price spike has been the new threat from the beginning of the year," he said. "Were political tensions in the Middle East to escalate, you could easily see a further oil price spike."¶ He said that given so much of it is sentiment driven, even the fear that the Strait of Hormuz – which carries a third of the world's oil seaborne cargos – could close would be enough to cause a major spike.¶ ITEM has calculated that if oil prices rose to $150 a barrel in May and stayed there until the end of 2013, the price of unleaded petrol at the pump would rise to £1.60 a litre before the end of this year.

#### Oil price spike on brink now

Oprita 2/16/12 (Antonia Oprita - Deputy News Editor, CNBC.com - Oil Price Spike Likely 'Within Months': Charts Pro - <http://www.cnbc.com/id/46409075/Oil_Price_Spike_Likely_Within_Months_Charts_Pro>)

An oil price spike is likely this year as 10-year volatility is below average and geopolitical risks are not properly priced in, Ron William, a technical strategist at Mig Bank, told CNBC.com.¶ crude prices slipped on Thursday on worries that a second Greek bailout could be postponed. They hit a six-month high in the previous session after Iran announced progress on its nuclear facilities.¶ Reports that Iran had stopped oil exports to six European countries also contributed to the spike in price, but they were denied by the oil ministry later on Wednesday.¶ "From a market perspective, there is very little geopolitical risk priced into the market," William said in an interview.¶ "Historical oil volatility over the last 10 years shows that oil spikes are regular or cyclical. They happen every year or so, but of course the degree of the price spike varies," he said, adding that volatility in oil is trading below its 10-year average at the moment.¶ "From just a pure trading perspective, that suggests a growing probability of a price spike within months," William said.¶ Since January 25, when the European Union announced a July 1 deadline to impose an embargo on imports of Iranian crude, the price held in range, but that is about to change, according to William.¶ For West Texas Intermediate oil, $100 a barrel is the key psychological level, he said.¶ "Technically I think WTI [CLCV1 86.10 2.19 (+2.61%) ] is likely to have short-term weakness into key support at $90 but then thereafter a growing upside risk of a challenge of the April 2011 peak, roughly $114."¶ "It would be very positive for gold [XAU= 1576.1899 8.50 (+0.54%) ], and that ties in with a cycle view that I have for gold going into the summer period of this year. It would be negative for equity markets, potentially negative for the US dollar [.DXY 83.49 0.09 (+0.11%) ]," William said.¶ But other trading experts disagree. Dennis Gartman, of The Gartman Letter, said the world was facing an oversupply of energy in the very near future.¶ "There may be trouble in the Persian Gulf or one of the other 'hot spots' around the world, but there is no tightness of supply given the huge new finds of oil and nat-gas," Gartman said.

#### Oil market is unstable – we are on the brink of price spike

Koh 2/23/12 (Ann Koh - staff writer for Bloomberg - Risk of Oil-Price Surge Rising on Supply, Goldman Sachs Says - <http://www.businessweek.com/news/2012-02-23/risk-of-oil-price-surge-rising-on-supply-goldman-sachs-says.html>)

Feb. 22 (Bloomberg) -- A narrowing gap between the supply and demand for oil is increasing the likelihood that prices will “spike” higher, according to Goldman Sachs Group Inc.¶ Concerns of potential supply disruptions have increased as tensions between Iran and Western nations escalate, David Greely, Goldman’s head of energy research in New York, said in a report today. Spare production capacity among the members of the Organization of Petroleum Exporting Countries has fallen to “dangerously low” levels at a time that the world’s demand is recovering, Greely said.¶ “We believe that stronger-than-expected demand against limited inventory and scarce excess production capacity leaves the market vulnerable to price spikes in the near-to-medium term,” Greely wrote. “Oil looks increasingly compelling from the long side both as an outright position and a hedge.”¶ The bank continued to recommend investors buy Brent contracts for July 2012 to take advantage of rising prices, also known as taking a long position in the market.¶ Brent crude futures traded in London have gained 13 percent this year as the European Union and U.S. imposed sanctions to protest Iran’s nuclear program, prompting the Middle East’s second biggest producer to halt exports to France and the U.K. The contract for April settlement slid 14 cents, or 0.1 percent, to $121.52 a barrel on the London-based ICE Futures Europe exchange at 2:08 p.m. Singapore time. It closed yesterday at the highest since May 3.¶ Brent’s premium to West Texas Intermediate has “more room” to narrow to the bank’s twelve-month target of $4 a barrel, the report showed. The spread will decline as more pipeline and rail capacity becomes available to ship crude from the Cushing, Oklahoma, storage area to refineries along the U.S. Gulf Coast, according to the note.¶ Front-month contracts traded at a spread of $15.35 a barrel today. The price difference reached a record $27.88 on Oct. 14

#### Oil prices on edge now – Iran conflict

Rowley and White 12 (Emma Rowley, and Garry White - Emma Rowley is a journalist on the business desk, covering mining, commodities, construction and housebuilders - Iran stand-off could trigger oil price spike - <http://www.telegraph.co.uk/journalists/emma-rowley/>)

The worst-case scenario is that the ratcheting tensions will end in a military confrontation that would close the Strait of Hormuz, the strip of water between Iran and Oman that represents the world's most important shipping lane.¶ Roughly 40pc of the world's seaborne traded oil passes through the waterway, so the suggestion that traffic could be hindered has inevitably lifted the oil price. Brent crude, London's benchmark oil, advanced 5.9pc last week.¶ The threat has arisen as Iran responds to Western sanctions designed to make it end a nuclear programme said to be aimed at producing an atomic bomb.¶ New Year's Eve saw Barack Obama, the US President, sign an act banning foreign financial institutions that do business with the Iranian central bank from trading in the US, which has refused Iranian oil since 1979.¶ Meanwhile, the EU – which takes about a fifth of Iran's oil exports – is close to imposing its own sanctions.¶ The impact is already being felt, with Iranian citizens queuing up at banks to convert their savings into dollars as their own currency plunges further.¶ As the sabre-rattling grows louder, Tehran has warned that closing the Strait would be "easier than drinking a glass of water".¶ Analysts agree it would be fairly simple to disrupt ships' passage through the waters. All Iran would have to do is put a few mines into the Strait and it would be a no-go area until the US Navy cleared the waters.¶ So how much risk is there that the Strait closes? Many think it is the most unlikely outcome. Iran would take a severe economic hit from the move, as it would not be able to export its own oil or import vital materials.¶ However, there are worries that politics rather than economics will rule Iran's behaviour and that it could lash out at its opponents.¶ "At some point sanctions become an act of war," Vali Nasr, a former foreign policy adviser in the Obama administration, has warned.¶ There is also a risk that the situation could escalate as an unintended consequence of the domestic political backdrop in Iran.¶ While last year the Arab Spring political uprising represented the major risk to the oil supply, this time around it is the "Iranian Spring election factor", according to Malcolm Graham-Wood, an energy analyst at VSA Capital.¶ With the Iranian elections due on March 2, industry watchers expect the anti-West rhetoric to ratchet up several notches – and, accordingly, nerves around the oil supply.¶ Analysts at Barclays Capital explain "that the rising rhetoric on closing the Strait and the new military exercises [by Iran in the area] run the risk of triggering an unintended escalation through miscalculation.¶ "For example, we cannot rule out the possibility that Iran might start to selectively stop and inspect ships travelling through the Strait, a move that could certainly create a broader crisis."¶ In terms of the longer-term – and more likely – impact of the row, the risk is not so much the fallout from a possible closure of the Strait so much as the negative impact the sanctions will have on oil production from Iran, as demand for their product suffers. A reduction in capacity again adds to the risks that the oil price will spike.¶ Since most oil price predictions are based on sluggish global demand as the world economy wobbles, as opposed to geopolitical tensions, analysts see the Iran situation as the single biggest factor that could send the oil price upwards. A higher oil price will, of course, drag on economic growth, as it signals rising costs for businesses and individuals.¶ So will anyone benefit from the stand-off? Perhaps those oil traders with a cool head, who remember that previous bristling over the Strait, as seen in the 1980s, did not leave the waters closed. "Only brave hearts would go against the current move with the risk of a short-term spike looming," said Ole S Hansen, senior commodity strategist at Saxo Bank. "But look out for any news that points towards an easing of the tensions as it could trigger some aggressive selling." ER

### Oil Prices Will Adjust

#### Oil prices unsustainable- will readjust naturally

Lambo 12 (Zig, The Energy Report, 7/3, “Falling Oil Prices Offer Great Stock Buying Opportunities: Byron King” <http://www.theenergyreport.com/pub/na/13792> TM)

The "experts" had been talking about oil prices going to $130 per barrel. Now there's talk of $50-60 per barrel oil. Either end of that spectrum is not sustainable in the long run, says Byron King. In this exclusive interview with The Energy Report, he explains why he believes prices will settle in the $80-100 range. In the meantime, the recent pullback offers some interesting buying opportunities for investors ready to pounce when the market finds a bottom, as well as some names investors can nibble on right now. Byron King: We're living with volatility, most of which is due to international currency and exchange rates. The dramatic decline in the euro has caused a capital flight to the U.S. and a strengthening of the dollar, which results in lower oil prices. The other big macro-type issues include the looming economic slowdown in China. More news stories are coming out about negative demand indicators in China, which will definitely be bad for Chinese consumption growth. The country may use less oil than people forecast. The Saudis are producing at least 1 million barrels per day (MMbbl/d) in excess of what they normally would. So, between the rising dollar, slowing growth and excess production in Saudi Arabia, we're seeing these gyrating low prices. TER: One hundred and thirty dollar per barrel oil and $5 a gallon (gal) gasoline failed to materialize as predicted, and now there's talk of $60/bbl or even $50/bbl oil in the shorter term. Some oil analysts are now predicting $3/gal gasoline by early November. What's your expectation? BK: Extremely high or low prices aren't realistic for the long haul. The world economy will hardly function with $130/bbl oil. The airline industry shuts down right away and much of the rest of the world will suffer accordingly. A $5/gal gasoline price makes for an instant U.S. recession. Whatever economic strength we saw in late winter and early spring got stuck in the mud when gasoline prices went over $4/gal on the East Coast and toward $5/gal in California. All of a sudden, the U.S. economy lost traction, and we're sliding back into recession. And while the world economy can't deal with high oil prices, Credit Suisse's $50/bbl oil prediction, though it may happen, would not last long. For one thing, the seven sisters of oil exporting-Saudi, Iran, Nigeria, Kuwait, United Arab Emirates, Russia and Venezuela-simply cannot afford under $85/bbl oil because they have their own bills to pay. Those lowball prices could be reached because of events, but they won't remain because of supply-and-demand economics. TER: Is the $80-90/bbl range reasonable? BK: This morning, West Texas Intermediate (WTI) oil was trading in the $78/bbl range. That's rather low by recent standards. A WTI price of $80/bbl is enough to keep the North American oil industry working. A $90/bbl level for Brent, the international standard, will keep the international oil industry alive. It will tighten things up for the big oil exporting countries, but they'll be able to avoid bread lines and riots. The number that oil has to find is $80-85 in North America and between $90-100 internationally. TER: Have upside speculators been chased out of this market at this point? BK: This is still a trader's market, with rising prices and falling prices. For people with a really strong stomach and money to play the short term, have at it, boys. This is your market. The last thing the traders want is for oil to stay static at $85/bbl, though the rest of the world might like that for budgeting and projecting purposes. For traders, the last couple of months have been terrific. The people who understand the market and are successful over the long term know that you sell on the way up and buy on the way down. It's a question of understanding the market dynamics. As Mark Twain said, "If you're going to throw your eggs in one basket, you have to watch that basket." When you're trading at the margins and a move one way or the other could wipe out your capital, you have to keep your eye on things. But the big oil thinkers don't worry about today's headlines. They need to think about the very long term. TER: Big companies are usually able to absorb oil price fluctuations, but what happens with the smaller companies during periods of low prices and volatility? BK: It's been a tough world out there for small companies without deep pockets. The energy business, in general, is for companies with money. A small gold miner versus a small oil company carries a difference of at least one or two orders of magnitude. The equivalent of a $20 million ($20M) gold company would be a $200M oil company. With the small guys, the big concerns right now are geographic and economic. If you're in the natural gas business in North America, you have to be deeply concerned. Natural gas prices are at historical lows and the cash flow just isn't there to support much development. A small company may have tens or hundreds of millions of dollars tied up in leases. If you don't somehow drill or exploit these leases in one way or another, you're going to lose them. So not only would you not be drilling or extracting, but you'd lose your leases, too. That's a terrible predicament. So what will we see in North America? There will be some cutbacks in drilling. It's already happening, but we're going to see more of it. It will affect the smaller drillers and service companies first. The big guys-Halliburton (HAL:NYSE), Schlumberger Ltd. (SLB:NYSE) and Baker Hughes Inc. (BHI:NYSE)-will also feel it but, they have much deeper pockets and they're large and international. So we'll see some rigs get stacked, but I don't think we'll see as many as some of the gloom-and-doomers are forecasting. A lot of these smaller companies have to keep their geologists and engineers working and drilling or all of that money that they spent on leases in the last five to ten years goes down the drain. Overseas is another story. You almost have to take each country as you find it. Argentina is a disaster with what's going on with Repsol YPF SA (REP:BMAD). A couple of weeks ago, a company called Pan American Energy LLC saw its operations literally overrun by rioting workers-one of the largest and oldest fields in Argentina was almost shut down because of political issues and labor unrest. Look at Poland. A lot of people were thinking Poland was going to have its own shale gas revolution, but a couple of weeks ago, Exxon Mobil Corp. (XOM:NYSE) decided to pull out of Poland after a couple of bad wells. Now, the cynics are saying that Exxon is getting better deals from Russia. Russia is the big fish that Exxon wants to land, so it's going to walk away from Poland. One more country I'd throw in is Libya, which was a big oil producer. With the recent shale revolution, its exports almost ceased. Now, it's put a lot of things back into shape, but what I hear is that many of those repairs were jerry-rigged and could start breaking down. Secondly, the security situation is not nearly as good as the operators would like to see. TER: Do you think that there will be enough cutbacks in domestic natural gas production to trigger a price rise in the foreseeable future? BK: Prices have to rise, and they probably will rise sooner than conventional wisdom suggests. I'm sort of a contrarian by nature, but the fact is they're giving gas away as it is, so I don't see much downside from here. I do see upside potential, as well as more demand from more places. We're already seeing a complete upheaval in the electric-generating industry with coal-fired plants. There are no new ones being built and they're scaling back on upgrading the old ones because they may not operate long enough to pay back. That has impacts elsewhere in U.S. industry, such as with companies that do the engineering and supply the parts, engineering and such for upgrading pollution controls on coal plants. They're about to enter their own mini-recession because of lack of business. Natural gas is also playing havoc with the renewable energy space. Natural gas-fired energy is so cheap that the windmill guys and the solar guys are losing the battle of economics on that alone. I expect to see slightly less gas supply and likely more demand than what people have anticipated. TER: What are some of the oil and gas majors that would be good shots to weather the ups and downs? BK: In the international realm, Royal Dutch Shell Plc (RDS.A:NYSE; RDS.B:NYSE) is in very good shape. It is a wonderful, technology-based company that has deep pockets and a very aggressive plan to grow its resources and reserves over the coming years. Another one that I think is just a spectacularly well-run company is Statoil ASA (STO:NYSE; STL:OSE), of Norway. It is truly one of the world leaders in offshore work and has made a major commitment in North America. People in North America should know there's a new kid on the block. I think we're going to see great things from Statoil. Further down in North American domestic plays, I'm keeping my eye on a company called Denbury Resources Inc. (DNR:NYSE). Denbury is a very advanced independent as independents go-and is making a lot of good moves in the tertiary recovery area using carbon dioxide to get the last drops of oil out of reservoirs. In Canada, I've been following a company called Cenovus Energy Inc. (CVE:TSX; CVE:NYSE) for two years now. It is a very rapidly growing player within the Alberta oil sands play. It has lots of acreage and lots of investment to grow things with very good economics. The one major issue for Cenovus and for all of the Canadian oil sands operators is access to markets. The Keystone Pipeline debacle was not good for the oil sands players. At the same time, the Canadians are moving very firmly toward finding another way of doing it. We may or may not see that northern pipeline get built to the upper Pacific Coast, but there is certainly a plan in place to take some of that Alberta oil sands product down to Vancouver for export, which will be to the long-term, strategic detriment of the U.S. Regardless of who is president next January, we will see some sort of a Keystone Pipeline expansion to move more oil sands product out of Alberta and down into the U.S. TER: Can you give us a little more detail on the revenues and market caps of Denbury and Cenovus and where you think they might be going? BK: Cenovus is a $32 billion ($32B) market cap company. The price:earnings (P/E) is around 12. It is making money, and it pays a nice dividend-2.8%. It's been a bit of a sleeper for many investors, but I think Cenovus is a great choice for investors looking for exposure to the Canadian oil sands plays. It is a good, strong idea with a lot of upside and a lot of growth potential, and it pays a nice dividend while you're waiting. Denbury has a $5B market cap. The P/E is about seven, with no dividend. This is a stock where I'm looking for internal growth to bring the capital gains back to investors over the long haul. TER: What other companies are interesting at these levels? BK: I'm a big fan of the oil service sector. Right now, Schlumberger is trading down around $60. Schlumberger is one of those companies that almost never gets cheap because too many people know how good it is. When it trades in that low-$50-60 range, I always consider it a buying opportunity. When oil prices recover, that $60 Schlumberger stock is going to be an $80-90 stock. If you can just bear with the market gyrations, it's almost a guaranteed 40-50% gain. Right now, with things as volatile as they are, investors want to be very careful about going too deep into these very turbulent waters. To the extent that you do go in, it would be with companies that have a really strong upside such as Cenovus or Schlumberger. TER: Do you have any thoughts on Encana Corp. (ECA:TSX; ECA:NYSE)? BK: Encana is also a very strong Canadian firm. It has almost a $14B market cap and a relatively high P/E of 27. But the dividend yield is a nice 4%. If you're looking for yield, Encana would do it for you, but with a P/E of 27, I think it's priced more like a growth stock than others. In this oil market, I don't know if management can really live up to those kinds of expectations. I'm not negative on it; I'm just saying, be careful. TER: To summarize, what do you think the average investor should be doing these days if they want to play the energy markets? BK: I would be very wary of most gas plays just because of the economics. I would also be wary of the oil service sector, with the exception of Schlumberger, which happens to be cheap but won't be cheap for long. In terms of the larger oil plays, I'd suggest Statoil for international and technical competence with a good growth profile in front of it and, in the oil sands, Cenovus. I don't want to give too long of a list to the investors out there because this is not the time to be too bold. This market could confound people greatly. We're at the beginning of a presidential election cycle where government statistics and government announcements will become completely meaningless because everything will become politicized. There are many beaten-down ideas out there. The market is filled with underpriced value, but you want to find the best of the best of those underpriced values. I think I've given a few names in this discussion. I'll be able to sleep well at night if investors act on those. TER: Should we wait a little bit for the oil market to bottom out before it's an ideal time to get in or should people be averaging in? BK: I think people should view the market as trying to find a bottom. Right now, it's OK to nibble, but it's better to watch and wait. TER: You've given us a good overview of where you think the market might be headed and some good names to look at. Thanks again for your time. BK: Thanks for having me.

### Low Oil Prices-Bad for Econ

#### Low oil prices bad for global economy

Nelder 9 (Chris, Energy Futurist/Analyst/Writer, 3/4/09,Energy and Capital, The Sleeping Threat of Low Oil Prices, <http://www.energyandcapital.com/articles/oil-prices-opec/838>) DD

If you need any more proof that the markets are not an efficient discounting mechanism, look no further than the price of oil. Oil prices in the high $30s to low $40s are nothing short of a ticking time bomb under the world economy, but you wouldn't know it from watching the commodity markets. Once the global downturn slashed $100 off the price of a barrel, the issue of oil supply seemed to simply fall off the radar of market observers. Falling oil demand is all that anyone seems to care about, but we may pay dearly for taking our eye off the ball of supply.

Low prices mean low economy

Samuel 11(Stephanie, Christian Post Reporter,8/8/11,The Christian Post, Lower Gas Prices Come Amid Economic Woes,http://www.christianpost.com/news/lower-gas-prices-come-amid-economic-woes-53591/)DD It's an indicator that people are worried about the economy," said Kreutzer. He explains that oil traders are leaving the commodities market in anticipation of lessening demand. A drop in demand results when there is a drop in income. A similar situation occurred in 2008 when petroleum prices fell sharply. The drop was followed by a financial crisis and the $700 billion TARP bailout. Last week, despite congress breaking the debt ceiling stalemate, Standard and Poor's lowered the credit rating on the national debit from AAA+ to AA+ for the first time in history. News of a troubled U.S. economy led to a massive Wall Street sell-off that began late last week and continued into Monday. Some traders who are concerned about this dilemma are switching their investments to gold. Bloomberg reports that gold futures, seen by many as a safe bet in the midst of financial uncertainty, rose to just over $49, setting the record for biggest gains since March 2009

## A2: Links

### Can’t predict oil prices

#### Prices in the oil market are unpredictable and are always subject to change

Grant, the Eni Professor of Strategic Management at Bocconi University in Milan as well as a Visiting Fellow at Georgetown University, 2003

(Robert, “Strategic Planning in a Turbulent Environment: Evidence from the Oil Majors” Strategic Management Journal, Vol. 24, Number 6, page 3 MDRJ)

Since the early 1980s, strategic planning systematic, formalized approaches to strategy formulation has come under heavy attack from management scholars. Criticisms have addressed the theoretical foundations of strategic planning, particularly the impossibility of forecasting (Mintzberg, 1994b: 110), while empirical evidence both longitudinal case studies (e.g., Mintzberg and Waters, 1982; Pascale, 1984) and investigations of strategic decision making (e.g., Bower, 1970; Burgelman, 1983) points to strategies emerging from the weakly coordinated decisions of multiple organizational members. Increased volatility of the business environment makes systematic strategic planning more difficult. Rapid change requires strategies that are flexible and creative characteristics which, according to Hamel, are seldom associated with formalized planning: 'In the vast majority of companies, strategic planning is a calendar-driven ritual ... [which assumes] that the future will be more or less like the present' (Hamel, 1996: 70). Eisenhardt's research into 'high velocity environments' points to the advantages of 'semicoherent' strategic decision-making processes that are unpredictable, uncontrolled, inefficient, proactive, continuous, and diverse (Eisenhardt, 1989; Brown and Eisenhardt, 1997). If complexity and uncertainty render decision making impossible, then self-organization may be more conducive to high performance than hierarchical direction (Pascale, 1999). The goal of this paper is to explore whether and how companies' strategic planning practices have adapted to a world of rapid, unpredictable change. The study identifies the key features of strategic planning systems in an industry that transitioned from stability to turbulence the world petroleum industry. It explores the changing characteristics of the oil majors' strategic planning processes and the changing role of strategic planning within the companies. The study fills a gap in the literature: despite the intense debate over the merits of strategic planning and continued interest in strategic decision processes within firms, we know little about the formal systems through which companies formulate their strategic plans. The paper contributes to strategic management knowledge in three areas. First, it provides descriptive data on the strategic planning practices of some the world's largest and most complex companies during the late 1990s and how these practices changed in response to increasing environment turbulence. Second, it informs the long-running debate between the 'design' and 'process' schools of strategic management and suggests a possible reconciliation of the two. Third, it sheds light upon the coordination and control in large, complex enterprises operations in fast-changing business environments.

#### Oil prices are impossible to predict

Stewart, writer for Smartmoney.com, 2008

(John, 5/13, Smartmoney.com “Oil Prices Are Impossible to Predict” <http://www.smartmoney.com/invest/stocks/oil-prices-impossible-to-predict-23060/>, 7/2/12 MDRJ)

With benefit of hindsight, of course, I wouldn't have sold the calls or taken the gains. Still, in my last oil column I made the point that there's no point in having a system if you're going to change the rules, or only follow it when you feel like it. But at some point you have to acknowledge it's no longer working. That time is now. Oil prices are no longer in any kind of predictable trading range. I'm not alone in thinking his. I noticed that Goldman Sachs analysts have been changing their oil predictions even more often than I have, recently calling for oil as high as $200 a barrel within six months to two years. I'm not going to pretend to understand the underlying causes of soaring prices: geopolitics; demand from China, India and other emerging markets; the weak dollar; rising inflation; or speculative excess, all of which I've heard offered as causes. Perhaps it's all of the above. Nor am I losing any sleep over whether we're in an oil and commodity "bubble." Maybe we are. The strange thing about bubbles is that they don't seem irrational while they're going on, otherwise they'd never happen. As investors we have to live with what the market gives us. If you declared oil prices to be in a bubble last fall and got out of the energy sector (a not-unreasonable proposition), then you've had a pretty tough six months. My energy and commodity stocks are the reason I've outperformed the averages this year.

#### Oil prices are extremely hard to predict

Nesvisky, writer for the National Bureau of Economic Research, No Date

(Matt, The National Bureau of Economic Research, “Understanding Crude Oil Prices” <http://www.nber.org/digest/mar09/w14492.html>, 7/2 MDRJ)

Hamilton explores three broad ways to explain changes in oil prices: a statistical investigation of the basic correlations in the historical data; a look at the predictions of economic theory as to how oil prices should behave over time; and a detailed examination of the fundamental determinants and prospects for supply and demand. In terms of the statistics, he notes that changes in the real price of oil historically have tended to be permanent, difficult to predict, and governed by very different regimes at different points in time. According to economic theory, three restrictions of the time path of crude oil prices should hold in equilibrium, arising from storage arbitrage, financial futures contracts, and the fact that oil is a resource than can be depleted. These connect the spot price of oil today to the value that market participants expect the price to be in the future. Just as the current price of a stock reflects what people expect about future earnings, making the actual change in stock prices very difficult to predict, the current price of oil should reflect expectations of future fundamentals, making changes in the price of oil hard to predict. The broad movements of the price of oil and oil futures contracts are consistent with these theoretical restrictions. The price elasticity of demand for oil (that is, the response of the demand for oil to changes in its price) is challenging to measure but appears to be quite low, Hamilton writes, and it seems to have declined over time. Income elasticity (that is, the response of the demand for oil to changes in income) is easier to estimate: for countries in an early stage of development it is close to unity, but it is substantially less than one in recent U.S. data.

#### Oil prices are fickle

Rosch, with the FOM University of Applied Sciences, Study Centres Munich, Germany, and Taian, China, and Schmidbauer, with the Department of Business Administration,

Bilgi University, Istanbul, Turkey, 2011

(Angi and Harold, July 30th, “CRUDE OIL SPOT PRICES AND THE MARKET'S PERCEPTION OF INVENTORY NEWS” 7/2/12 MDRJ)

Since the late 1980s, crude oil prices are among the most volatile products and commodities, see e.g. Regnier [9]. Extreme swings in crude oil prices use to be linked to geopolitical events, and economic turmoil. The role of the OPEC uses to be questioned, and possible effects of the cartel's announcements of decisions have been analysed (e.g. Fattouh [3], Schmidbauer & Rosch [10]). One clue to understand the recent zig-zag of prices, however, seems to be the uncertainty about market fundamentals. While demand shocks are blamed by Wirl [11], supply factors are brought forth by Gallo et al. [4]. According to Kaufmann [7], there is impact of changes in both market fundamentals on crude oil prices, with major speculative pressure interfering from 2004 onwards, when prices rapidly increased. Effects of refining capacity and inventories on crude oil prices and transmissions in the energy supply chain are investigated by Kaufmann et al. [5, 6]. Their results indicate little evidence of an effect of higher refinery utilization, while a rise in crude inventories

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Grant, 3

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#### Oil prices are impossible to predict

Stewart 8

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## A2: Oil Markets Internals

### Markets don’t affect prices

#### Supply and Demand change the price of gas

Popper 12 (Nathaniel, Tribune Newspapers, March 30, “Traders say supply, demand drive oil price” <http://articles.chicagotribune.com/2012-03-30/business/sc-cons-0329-money-consumer-watch-20120330_1_crude-oil-pressure-on-gasoline-prices-higher-gas-prices> TM)

Screaming about higher gas prices? Jeff Grossman does it every day. He is one of the dozens of traders in brightly colored jackets who pack the floor of the New York Mercantile Exchange, one of the world's premier hubs for energy trading. That has given traders such as Grossman a rather unique perspective on the rising price of fuel — especially since prices at the pump typically follow moves on the trading floor by just a few days. "You might as well gas up today because Friday they're going to raise your price," Grossman, an independent energy options trader, told his wife one day recently after the price of crude oil surged in the trading pits. U.S. consumers have struggled as a barrel of benchmark U.S. crude oil surged above $100 early in the year and a gallon of regular gas reached more than $4 at the pump in many parts of the country. The reasons for the elevated prices have become a subject of debate. Members of Congress have blamed it on speculators, presidential candidates have blamed it on one another, and policy wonks have talked about the Middle East and refinery capacity. The pit for energy options was thrown into a frenzy recently after reports that President Barack Obama and British Prime Minister David Cameron discussed opening petroleum reserves to help ease the pressure on gasoline prices. The cost of a barrel of oil plunged $2.50 in a matter of minutes. Once traders realized that the release of the reserves was not likely to happen, the price bounced up again. Politicians have taken some of the blame for the rising price of oil. But aside from the petroleum reserves, traders say politicians have almost no ability to change the price of gas other than through long-term energy policy. The more important factors, traders say, are those of basic supply and demand. Traders say they've been watching several global stories that have a big influence on which way the markets will move. The supply of oil from the Middle East has been threatened in recent months as tension between Israel and Iran has mounted. Grossman said he thinks the Iranian crisis has added $5 to $10 to the price of a barrel of oil. The price of oil had been determined largely by the value of the dollar and the euro — forcing oil traders to become currency experts. But in recent months, that relationship has become less important. Tom Reilly, an options broker for SCS Commodities Corp., said that the health of the U.S. economy has been one of the most important factors, with oil prices rising when the stock market has gone up. "People think the American economy is strong — and that will drive demand for oil," Reilly said. The floor traders bristle at the suggestion that they individually or as a group could decide to drive up prices. "The idea that people can keep that price up there artificially — it's not happening," said Ray Carbone of Paramount Options. "You'd get run over."

#### Economic fundamentals drive the price of oil

Swedroe 12 (Larry, principal and the director of research for The Buckingham Family of Financial Services, comprised of Buckingham Asset Management, LLC, July 3, 2012 “Do speculators drive oil prices?” <http://www.cbsnews.com/8301-505123_162-57462119/do-speculators-drive-oil-prices/> TM)

The unprecedented surge in the spot price of crude oil during 2003-08 sparked a heated public debate about the determinants of the price of oil. The popular view was that the surge in the price of oil during 2003-08 couldn't be explained by economic fundamentals. Instead, it was caused by what has been called the "financialization" of oil futures markets, with speculators becoming a major determinant of prices. This interpretation led to calls from politicians to regulate oil futures markets. The authors of the March 2012 study "The Role of Speculation in Oil Markets: What Have We Learned So Far?" reviewed the academic evidence on this issue. The following is a summary of their findings: There's clear evidence of the increased financialization of oil futures markets. The existing evidence isn't supportive of an important role of speculation in driving the spot price of oil after 2003. There's strong evidence that the co-movement between spot and futures prices reflects common economic fundamentals rather than the financialization of oil futures markets. One study concluded that the price of commodities not traded on futures exchanges rose as much as or more than the price of exchange-traded commodities. There have been persistent deviations between oil futures prices and natural gas futures prices that suggest a more important role for supply constraints in individual commodity markets. The recent development of shale gas is a perfect example of the decoupling of prices. Not only was the surge in the real price of oil well under way by 2005, but the ability of economic fundamentals -- such as unexpectedly strong demand for crude oil from emerging Asia -- to explain fluctuations in the real price of oil since 2003 didn't depend on how the oil futures market is modeled. This was a robust finding across a wide class of models and methodologies. There was no evidence that financial investor flows predicted movements in oil futures prices or price volatility. Rather, such speculative trading was associated with reduced volatility. There was no evidence that the positions of hedge funds or other noncommercial investors predicted changes in the futures price. Instead, futures price changes preceded changes in positions. This result is consistent with speculators providing valuable liquidity to the market and with speculators reacting to market conditions, rather than vice versa. Two separate studies found that there was no statistically significant relationship between growth in the volume of oil futures contracts on the one hand and oil futures returns, their realized volatility and their implied volatility on the other hand. When a relationship was found at all, it was negative rather than positive. The authors also noted the important role that speculators play: "The oil futures market cannot function without speculative traders providing liquidity and assisting in the price discovery. The presence of speculators defined as noncommercial traders tells us nothing about whether speculation is excessive. Speculators who end up losing their bets rarely attract public attention." The bottom line is that while the increased financialization of the energy markets might provide a convenient villain to blame, there's little-to-no evidence that the increased role of speculators drives prices.

#### No speculation- Iran conflict drives prices higher

Smith 12 (Grant, Bloomberg News, July 03 “Iran sanctions, stimulus send Oil prices higher” <http://articles.mcall.com/2012-07-03/business/mc-oil-prices-20120703_1_iran-sanctions-brent-crude-west-texas-intermediate> TM)

Oil rose in New York on speculation sanctions against Iran will curb supply and amid signs that central banks from Europe to China may ease monetary policy to spur economic growth. Iran fired several missiles as part of a three-day military exercise as the Foreign Ministry condemned the European Union ban on Iranian oil as a threat to national security. The embargo will probably have a bigger effect than previously estimated, Goldman Sachs Group Inc. said. The European Central Bank is forecast to cut interest rates this week to help resolve the region's debt crisis. A state-owned newspaper in China said the time is right to increase liquidity in the banking sector. Brent crude surpassed $100 a barrel for the first time in three weeks. "The conflict with Iran is not over, and if there's escalation that will drive prices higher," said Sintje Boie, an analyst at HSH Nordbank in Hamburg who predicts Brent crude will rebound to $105 a barrel by the end of the quarter. "The world economy will improve in the coming months, oil demand will increase this year and the conflict with Iran isn't over. So the upward path for oil prices is there." Oil for August delivery climbed as much as $2.35 to $86.10 a barrel and was at $85.90 in electronic trading on the New York Mercantile Exchange at 12:34 p.m. in London. The contract slid $1.21 yesterday to $83.75, the lowest close since June 28. Prices are 13 percent lower this year. Brent for August settlement traded above $100 a barrel for the first time since June 11 and was at $99.68 on the London- based ICE Futures Europe exchange. The European benchmark's premium to West Texas Intermediate was at $13.84 compared with $13.59 yesterday. Iran Sanctions 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. Rate Cut European bank officials will lower the main interest rate by a quarter percentage point to a record 0.75 percent on July 5, a Bloomberg News survey of economists shows. EU leaders, who announced plans last week to stem the region's debt crisis by amending bailout rules and moving toward a banking union, are now looking to the central bank to help. "Europe's problems are unlikely to be resolved by monetary policy," said Guy Wolf, a macro strategist at Marex Spectron Group Ltd., a London-based commodities broker, who predicts oil prices may struggle to advance. "The growth environment is the worst since the financial crisis." U.S. crude stockpiles probably dropped by 1.9 million barrels last week, according to the median estimate of eight analysts in a Bloomberg News survey before a July 5 Energy Department report. The industry-funded American Petroleum Institute will report its own data prior to the government data. Gasoline supplies increased 1 million barrels last week, according to the survey. Refineries traditionally step up operations with the start of the so-called driving season, which runs from Memorial Day at the end of May to Labor Day in early September.

#### Iran Embargo rebounding oil prices

Krukowska 12 (Ewa, Bloomberg News, July 2 “Iran-Oil Sanctions Risk Biggest OPEC Export Loss Since Libya” <http://www.sfgate.com/business/bloomberg/article/Iran-Oil-Sanctions-Risk-Biggest-OPEC-Export-Loss-3678649.php> TM)

July 2 (Bloomberg) -- European Union sanctions on Iran entered into full force yesterday after exemptions on some contracts and insurance ended, adding pressure on crude prices to rise and on the Persian Gulf nation to halt its nuclear- enrichment program. The reduction in Iranian exports may become the biggest supply disruption from a member of the Organization of Petroleum Exporting Countries since an armed rebellion all but halted pumping in Libya last year, according to the International Energy Agency. It also comes as a strike by Norwegian workers is curbing flows from North Sea fields. “We expect Brent oil prices to be supported by Iranian oil sanctions and potential loss of supplies from the North Sea,” Gordon Kwan, the head of regional energy research at Mirae Asset Securities based in Hong Kong, said in a June 28 report. “The imminent EU insurance ban on tankers carrying Iranian crude could drive up demand for Brent and Dubai crude.” Brent futures fell below $90 a barrel on June 21 for the first time in 18 months on concern that Europe’s debt crisis may spread and sap fuel use. Now, the Iran embargo and Norwegian strike are stoking speculation about a rebound in prices, according to analysts such as Kwan and Ole Hansen at Saxo Bank A/S. Brent for August settlement surged 7 percent on June 29 to close at $97.80 a barrel on the ICE Futures Europe exchange, the biggest one-day increase since April 2, 2009, when prices jumped 9 percent. Brent slid to $95.77 today. Unsold Barrels Iran, the second-biggest producer in OPEC after Saudi Arabia, was producing about 3.3 million barrels a day in May. Full implementation of sanctions will remove about 1 million barrels a day during the second half of the year as buyers disappear and Iranian storage tanks become full, the Paris-based IEA forecast in a June 13 report. Mohammad Ali Khatibi, Iran’s governor to OPEC, warned yesterday that the EU would bear “the consequences of politicizing the market,” without specifying what he meant, the state-run Iranian Students News Agency reported. Mahmoud Bahmani, Iran’s central bank governor, said his nation “isn’t sitting by idly” and has a “very suitable” $150 billion in foreign currency reserves to help weather the latest trade and financial curbs. “We have programs to fight the sanctions, and we will confront hostile policies,” Bahmani said yesterday, according to the state-run Mehr news agency. Intensified Pressure Secretary of State Hillary Clinton said Iran will face increasing pressure from sanctions aimed at its nuclear program. Complementing the European restrictions is a U.S. law enacted Dec. 31 that cuts off international banks from the U.S. financial system if they settle oil trades with Iran. The U.S. rule gave importing nations, including China, India and Japan, until June 28 to demonstrate they had “significantly reduced” their purchases of Iranian oil in order to qualify for exemptions. “The pressure track is our primary focus now, and we believe that the economic sanctions are bringing Iran to the table,” Clinton said in an interview with Bloomberg Radio in Geneva on June 30. “They are going to continue to increase and cause economic difficulties” for the country, she said. Iran’s economy has deteriorated amid the punitive measures, which have weakened the national currency and pushed up costs that were already surging after the government started removing energy and food subsidies a year and a half ago. Inflation accelerated to 22.2 percent in the 12 months ended May 20, the Central Bank said.

#### Real events cause oil prices- Eurozone crisis proves

The Age 12 (Oil falls as eurozone slump deepens, July 2, <http://www.theage.com.au/business/markets/oil-falls-as-eurozone-slump-deepens-20120702-21c8r.html> TM)

Oil fell in New York as investors sold contracts to profit from the biggest price surge in three years before reports today that may signal Europe’s economic slump is deepening. Futures declined as much as 1.5 per cent after surging 9.4 per cent on Friday. The jobless rate in the currency bloc probably rose to 11.1 per cent in May from 11 per cent the prior month, a Bloomberg News survey of economists showed before data today. It would be the highest on record going back to 1990. A European ban on the purchase, transport, financing and insurance of oil from Iran started yesterday. “I suspect all we’re seeing is a trimming of long positions,” said Michael McCarthy, a chief market strategist at CMC Markets Asia Pacific in Sydney, who predicts oil has climbed to a trading zone of $US82 a barrel to $US88.50 a barrel. “The question for the oil market is how effective these sanctions will be.” Oil for August delivery dropped as much as $US1.30 to $US83.66 a barrel in electronic trading on the New York Mercantile Exchange, and currently trading around $US83.70. The contract surged $US7.27 on Friday to $US84.96, the highest close since June 6. Prices decreased 17.5 per cent last quarter, the biggest decline since the final three months of 2008. Advertisement Brent oil for August settlement decreased $US1.68, or 1.7 per cent, to $US96.12 a barrel on the London-based ICE Futures Europe exchange. The European benchmark’s premium to West Texas Intermediate was at $US12.42, from $US12.84 on Friday. Bullish Bets Oil is paring gains today amid speculation Europe’s slowdown is worsening as the region battles a debt crisis. London-based Markit Economics may confirm its gauge of the eurozone’s manufacturing was 44.8 in June on a final reading, unchanged from an initial estimate, according to a separate poll of economists. A level below 50 indicates contraction. Prices surged Friday on optimism the crisis may be contained after leaders agreed to ease repayment rules for emergency loans to Spanish banks and relax conditions on help for Italy. Hedge funds raised bullish oil bets for the first time in eight weeks before the price rise, according to a Commodity Futures Trading Commission’s Commitments of Traders report. Crude’s jump brought prices in New York close to technical resistance, prompting investors to sell futures. The August contract has resistance at $US85.33 a barrel, the 23.6 per cent Fibonacci retracement of the drop to last week’s intraday low of $US77.28 from the March 1 high of $US111.38, according to data compiled by Bloomberg. Sell orders tend to be clustered near chart-resistance levels. Iran Supplies The EU banned the purchase, transportation, financing and insurance of Iranian oil because of the Persian Gulf’s nuclear program. The insurance embargo affects 95 per cent of the world’s tankers because they’re covered by the 13 members of the London- based International Group of P&I Clubs. Iran was producing about 3.2 million barrels a day in May, according to Bloomberg estimates. Full implementation of sanctions will remove about 1 million barrels a day during the second half of the year as buyers disappear and Iranian storage tanks become full, the Paris-based International Energy Agency forecast in a June 13 report. “The impact of Iran’s oil embargo has already been factored in to the price, so there’s no reason the market should react to the start of the sanctions unless something new happens,” Paul Gamble, the head of research at Riyadh-based Jadwa Investment, said in a telephone interview yesterday. “Saudi Arabia has kept its production pretty high to cover for Iran, so there’s plenty of oil in the market.” OPEC Meeting A reduction in Iranian exports may become the biggest supply disruption from a member of the Organization of Petroleum Exporting Countries since an armed rebellion all but halted pumping in Libya last year, according to the IEA. A strike by oil workers in Norway is also curbing flows from North Sea fields. Iran called on OPEC to hold an emergency meeting to address the group’s production of crude in excess of the targeted 30 million barrels a day, Mehr news agency reported Saturday, citing the country’s oil minister. Disregard of the target by some members of OPEC “will negatively impact prices in the international market,” Rostam Qasemi said, according to the state-run agency’s report. “The organization’s members must respect the production ceiling to maintain the supply and demand in oil markets,” he said.

#### Oil high- Iran key to curbing supply

Galatola 12 (Thomas, Assistant News Editor at Dow Jones Newswires, July 3, <http://www.businessweek.com/news/2012-07-03/crude-oil-advances-on-global-stimulus-bets-commodities-at-close> TM)

July 3 (Bloomberg) -- Oil surged to a one-month high on speculation that central banks from Europe to China will ease monetary policy to spur growth while sanctions against Iran may curb supply. Prices gained 4.7 percent as the European Central Bank is forecast to cut interest rates this week. A state-owned newspaper in China said the time is right to increase liquidity in the banking sector. Iran fired several missiles during a three-day military exercise as the country threatened to block tanker traffic in the Strait of Hormuz. “What you are seeing in the market right now is greater risk appetite as anticipations of further monetary easing grow,” said Harry Tchilinguirian, BNP Paribas SA’s London-based head of commodity markets strategy. “The market’s focus is returning back to Iran and the implications of the Iranian embargo in terms of the volume of oil that needs to be replaced.” Oil for August delivery climbed $3.91 to settle at $87.66 a barrel on the New York Mercantile Exchange, the highest level since May 30. Futures have increased 13 percent since closing at an eight-month low of $77.69 a barrel on June 28. They are 11 percent lower this year. Prices were little changed after the American Petroleum Institute reported oil inventories fell 3.03 million barrels last week to 382.6 million. The August contract gained 4.6 percent to $87.63 a barrel at 4:45 p.m. in electronic trading on the Nymex. Futures were at $87.57 before the report was released at 4:30 p.m. in Washington. Closed Tomorrow The Nymex trading floor will be closed tomorrow for the U.S. Independence Day holiday. Brent for August settlement gained $3.34, or 3.4 percent, to $100.68 on the London-based ICE Futures Europe exchange, settling above $100 for the first time since June 6. The European Central Bank and the Bank of England will announce interest-rate decisions on July 5. ECB officials will lower their benchmark rate by 25 basis points to a record low 0.75 percent, according economists surveyed by Bloomberg. The People’s Bank of China may cut lenders’ reserve requirements to increase liquidity in the banking system, according to a commentary on the front page of today’s China Securities Journal, which is published by the official Xinhua News Agency. The central bank announced a cut to interest rates on June 7, a day after the newspaper published a commentary urging the move. Chinese Stimulus “There is a better chance that Europe and China are going to have some monetary stimulus plans and that’s helping oil,” said Phil Streible, a Chicago-based commodities broker at RJO Futures. “If Iran does cut tanker traffic, oil prices will have a big advance. You are seeing some risk-on sentiment.” A European Union embargo on Iranian oil took full effect 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. The country pumped 3.16 million barrels a day in June, the second biggest producer in the Organization of Petroleum Exporting Countries after Saudi Arabia, according to Bloomberg estimates. “You’ve got saber-rattling by Iran that’s fueling the oil market,” said Rich Ilczyszyn, chief market strategist and founder of Iitrader.com in Chicago. “Did we really think that Iran would go away quietly?” Iran Sanctions Iran’s parliament is working on a bill to close the Strait of Hormuz to oil tankers linked to countries applying new EU sanctions, a lawmaker from the national security committee told Jam-e-Jam newspaper yesterday. The waterway is a transit route for a fifth of the world’s crude. Iran’s Revolutionary Guard Corps “successfully” fired several missiles, including long-range ones, in a military exercise that began yesterday, the official Islamic Republic News Agency said in a report published today. Oil also increased on expectations that stockpiles decreased last week. Inventories probably dropped 2.3 million barrels last week, according to the median of nine analyst estimates in a Bloomberg survey before a July 5 Energy Department report. Gasoline supplies increased 1 million barrels last week, according to the survey. Refineries traditionally step up operations with the start of the so-called summer driving season, which runs from Memorial Day at the end of May to Labor Day in early September. Factory Orders Prices followed gains in stocks after the Commerce Department reported orders placed with U.S. factories rose in May for the first time in three months, easing concern that manufacturing is faltering. The 0.7 percent increase in bookings followed a revised 0.7 percent drop in the prior month. The median forecast of economists in a Bloomberg survey called for a rise of 0.1 percent. Electronic trading volume on the Nymex was 602,651 contracts as of 4:45 p.m. in New York. Volume totaled 542,783 contracts yesterday, 3.9 percent below the three-month average. Open interest was 1.42 million.

#### Global Economy dominates oil prices

Kahn 12 (Chris, The Associated Press, July 6, “Global economy, not Iran, now dominates oil prices; crude falls three per cent” <http://www.winnipegfreepress.com/business/oil-falls-to-near-86-in-asia-after-rate-cuts-in-europe-china--161537235.html> TM)

NEW YORK, N.Y. - Iran's ability to rattle oil markets has been greatly diminished by growing concerns about the world economy. The price of oil fell this week even though Iran staged missile tests and renewed threats to block key oil shipments out of the Persian Gulf. Benchmark U.S. crude dropped by US$2.77, or 3.2 per cent, Friday to end the week at $84.45 per barrel in New York. Iran sparked a big price increase earlier this year as it sparred with the West over its nuclear program. When Iran held military exercises in the Gulf at the beginning of the year, oil prices climbed more than four per cent. Fears about a prolonged conflict — and what that would do to world oil supplies — eventually drove benchmark oil to near $110 per barrel in February. The jump helped push U.S. gasoline prices close to $4 per gallon. Five months later the U.S. and Europe are still concerned about Iran building a nuclear weapon and have numerous economic sanctions in place to pressure the oil-rich country to limit its nuclear program. Iran still refuses to comply. The difference, experts say, is that investors are now focusing on growing evidence that the global economy is slowing. The U.S. isn't creating enough jobs to lower its 8.2 per cent unemployment rate. Europe has struggled to handle a festering banking crisis and some countries are slipping into recession. Manufacturing activity has stalled almost everywhere. "Iran is still trash talking, but what's even more frightening is the bigger picture," said Tom Kloza, publisher and chief oil analyst at Oil Price Information Service. "The economy just hasn't looked good. There's a sense that this malaise will march on." And Barclays analyst Helima Croft said the rhetoric out of Iran this week may simply be an attempt to boost the price of its oil. "For now, this looks like a rather hollow threat," Croft said. Traders read more troubling economic headlines on Friday. The U.S. Labour Department said employers added just 80,000 jobs in June — a disappointing number that shows the economy is still sluggish three years after the recession ended. Meanwhile, borrowing rates for Spain and Italy rose to distressing levels because investors think more needs to be done to resolve Europe's debt crisis. The U.S. is the world economy slows, less oil is consumed and prices tend to fall. Brent crude, which helps set the price of imported crude used to make gasoline, fell by $2.51, or 2.5 per cent, to end the day at $98.19 per barrel in London. Natural gas futures fell after the government said the country's supply grew last week. Natural gas in storage hit an all-time high at the end of last year and has stayed well above average so far this year. The surplus is shrinking, however, as utilities burn more natural gas to generate power. And power demand will grow this summer as homes and businesses crank up their air conditioners with record heat gripping much of the nation. The price of natural gas fell 17 cents to finish at $2.78 per 1,000 cubic feet in New York. In other futures trading, heating oil fell by six cents to end at $2.71 per gallon, and gasoline futures gave up five cents to finish at $2.72 per gallon.

#### Economic fundamentals control oil prices- Global supply and demand, geopolitics, and refinery capabilities

Koch 12 (Wendy, USA TODAY, 4/19, “U.S. oil production is up, so why are gas prices so high?” <http://www.usatoday.com/money/industries/energy/story/2012-04-21/global-factors-gasoline-prices/54421804/1> TM)

Given America's new oil rush, it would seem the best of times for gas prices. But with $4-per-gallon sticker shock, it might feel like the worst of times. How can this be? The question is all the more perplexing, because the United States is not only producing more crude oil but also using less of it. As a result, net oil imports have dropped a third since 2005. With such good fortune, America's soaring pump prices seem to defy the laws of supply and demand — except for one fact: It's increasingly not just about us. U.S. gas prices are largely determined by global crude oil prices, which depend on a widening and shifting array of factors half a world away: economic sanctions on Iran; deepwater drilling off Brazil; spare oil capacity in Saudi Arabia; auto use in China; less nuclear power in Japan. So oil rigs may be hopping in North Dakota, but what happens in the Strait of Hormuz will likely have more impact on prices at the local gas station — even though the U.S. doesn't import a single gallon from Iran. "The market for oil is global," says Neelesh Nerurkar of the Congressional Research Service, the research arm of Congress, who co-wrote a paper on 2012's rising gas prices. He says although the U.S. imported almost no oil from Libya, unrest there last year cut the world's crude oil supply and thus drove up gas prices here. "It's frustrating to everybody," says Howard Gruenspecht, acting administrator of the U.S. Energy Information Administration, referring to the U.S.' limited ability to control its own gas prices despite its oil boom. His agency says the U.S. increased production of oil and petroleum products about 20% since 2008, but the amount was only 11% of the world's supply last year and 53% of what the nation used. Federal laws do not generally allow crude oil that's produced in the U.S. to be exported but permit the export of refined products that come from it — such as gasoline, diesel and jet fuel. Last year, for the first time since 1949, the U.S. became a net exporter of these products. Most gasoline exports go from Gulf Coast refineries to Latin America, where demand is booming. "They're not keeping it just for us," President Obama said this month about U.S. oil companies, noting they sell on the international market. As a result, he said, "We can't just drill our way out of this problem." He argued the only true solution to high gas prices is independence from fossil fuels, adding: "I don't want our kids to be held hostage to events on the other side of the world." His likely GOP presidential opponent, former Massachusetts governor Mitt Romney, partly blames Obama for gas prices, saying he should do more to expand U.S. oil production and pipeline capacity. When Obama was running for president in 2008, he partly blamed then-president George Bush for that year's surge in gas prices. "The reality is that presidents have very little to do with near-term fluctuations in gasoline prices," Frank Verrastro, director of the energy program at the Center for Strategic and International Studies, told a U.S. Senate panel last month. Here's a look at five factors that do: 1. Global crude oil price increases. Crude oil accounted for nearly three-quarters, or 72%, of the retail cost of a gallon of gasoline in February, according to the most recent data from the U.S. Energy Information Administration, the analytical arm of the Department of Energy. Refining costs/profits accounted for 12%, federal/state taxes for 11% and distribution/marketing for 5%. Crude oil prices reflect the cost of production, which has become more challenging as easy-to-access reserves dwindle. "Oil companies are turning to increasingly costly-to-produce oil," says Michael T. Klare, author of The Race For What's Left: The Global Scramble for the World's Last Resources. He points to tar sands in Canada, deepwater reserves off Brazil or so-called tight oil that's extracted from shale formations by hydraulic fracturing in the U.S. Klare says oil prices also reflect both the world's current supply and demand as well as expectations about the future. "People are bidding against each other and driving up the price," he says, noting buyers pay now for delivery later, so they often hedge their bets to account for a potential loss in supply. 2. Iran and other geopolitical uncertainties. What's causing the most heartburn now is Iran, one of the world's top five oil producers (along with Saudi Arabia, Russia, the U.S. and China). "This year, the dominant factor in pushing up world oil prices — and thus gasoline prices in the United States — is geopolitics — specifically, rising tension over Iran," Daniel Yergin, chairman of the IHS CERA division, formerly known as Cambridge Energy Research Associates, recently told a Senate panel. Because of concern that Iran is developing nuclear weapons that could strike Israel, the U.S. and the European Union have imposed economic sanctions against it and are considering tougher measures. Iran has threatened to "close" the 6-mile-wide Strait of Hormuz, a major oil thoroughfare, but has also agreed to talks with six major world powers, including the U.S. Other uncertainties focus on civil unrest in Yemen and Syria and discord between Sudan and South Sudan. 3. Limited spare capacity. These countries worry the oil industry, even though they're not major oil producers, because there's limited global cushion to cover a loss in production should their conflicts spread or deepen. Right now, Saudi Arabia holds almost all the world's spare capacity in crude oil production — estimated at about 2 million barrels a day, which is low historically and less than Iran's daily exports. "We're on a cusp, a balancing point," says Martin Tallett of EnSys Energy, an industry consulting firm. He says less than 4 million barrels-per-day of spare capacity is problematic, because even small changes in supply or demand can swing prices. "We're in a period of quite high uncertainty." The U.S. also has 696 million barrels in its Strategic Petroleum Reserve, designed as an emergency stockpile, but its prior releases lowered gas prices only temporarily. The reserve can satisfy a tiny fraction of the world's oil demand, estimated at 89 million barrels-per-day this year. 4. Rising worldwide demand. Oil consumption in the U.S. has fallen 10% since 2005, back to 1998 levels, as Americans drive less and use more fuel-efficient cars and equipment. That's not the case worldwide. From 2008 to 2011, oil demand grew by 3.2 million barrels per day from just four countries — Brazil, India, China and Saudi Arabia — and isn't expected to slow much this year, according to U.S. Senate testimony by Paul Horsnell, head of commodities research for Barclays. Japan's demand for oil has also increased since a massive earthquake and tsunami in March 2011 caused partial meltdowns at its Fukushima Dai-ichi nuclear power plant. Of its 54 nuclear reactors, only one is now operational. "Demand is rising worldwide, even if it's not in the United States, and supply is not keeping pace," Klare says. 5. Refinery closures/production costs. Higher demand could trigger particularly higher gas prices along the East Coast where several oil refineries have closed in recent years, making the region dependent on gasoline imports. Refinery outages on the West Coast have recently pushed up prices there. Unlike refineries on the Gulf Coast, which are sophisticated and have great export opportunities, those on the East Coast tend to be less flexible in the crudes they can refine and face more global competition. Sunoco closed its Marcus Hook, Pa., refinery in December and may close (or sell) its Philadelphia one this year, while ConocoPhillips shuttered its Trainer, Pa., refinery last September. These three facilities account for half of the Northeast's refining capacity. Another issue is pipeline capacity, which also varies nationwide and contributes to the regional differences in gas prices. Verrastro, an energy analyst, says expanding capacity with the Oklahoma-to-Texas half of the proposed Keystone pipeline could temporarily hike gas prices in the Rocky Mountain area by relieving the current glut of oil that has depressed gas prices there. Where are gas prices headed? Some industry analysts say prices have already peaked this year. Gruenspecht's EIA predicted April 10 that regular-grade gas prices will average $3.95 a gallon through September and could peak at $4.01 in May. It forecasts slightly lower gas prices next year of $3.73 a gallon. "Our outlook is for prices staying fairly high," Gruenspecht says, adding: "but there's a fair range of uncertainty around that."

### **Speculation Good**

#### Speculation is key to functioning oil markets- no evidence of causation to high oil prices

Kilian 12 (Lutz, April 2, Professor of Economics, Ph.D. in Economics from the University of Pennsylvania and M.A. in Development Banking from The American University, “Speculation in oil markets? What have we learned?” <http://www.voxeu.org/article/speculation-oil-markets-what-have-we-learned> TM)

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. In a recent CEPR Discussion Paper (Fattouh et al 2012), my co-authors and I review the evidence in support of the Masters hypothesis from a variety of angles, mirroring the evolution of the academic literature on this subject. The study concludes that the existing evidence is not supportive of an important role of speculation in driving the spot price of oil after 2003. Instead, there is strong evidence that the spot and futures prices responded to the same economic fundamentals. Discussions about the role of speculation often degenerate into blanket generalisations because it is rarely clear how speculation is defined. The most general economic definition of a speculator is anyone buying crude oil not for current consumption, but for future use. What is common to all speculative purchases of oil is that the buyer is anticipating rising oil prices. Speculative buying may involve buying crude oil for physical storage leading to an accumulation of oil inventories, or it may involve buying an oil futures contract, provided an oil futures market exists. Either strategy allows one to take a position on the expected change in the price of oil. Standard theoretical models of storage imply that there is an arbitrage condition ensuring that speculation in one of these markets will be reflected in speculation in the other market (Alquist and Kilian 2010). It is immediately clear that speculation defined in this manner need not be morally reprehensible. In fact, speculation may make perfect economic sense and indeed is an important aspect of a functioning oil market. For example, it seems entirely reasonable for oil companies to stock up on crude oil in anticipation of a disruption of oil supplies because these stocks help oil companies smooth the production of refined products such as gasoline. The resulting oil price response provides incentives for additional exploration, curbs current consumption, and helps alleviate future shortages. Hence, it would be ill-advised for policymakers to prevent such oil price increases. In the public mind speculation has a negative connotation because it is viewed as excessive. Excessive speculation might be defined as speculation that is beneficial from a private point of view, but would not be beneficial from a social planner’s point of view. It follows naturally that the public has an interest in preventing excessive speculation. The broad definition of speculation we discussed earlier makes no distinction between socially desirable and undesirable speculation. Indeed, determining whether speculative trading is excessive is difficult. One strand of the literature defines speculation in terms of who is buying the oil. Traditionally, traders in oil futures markets with a commercial interest in or a physical exposure to oil have been called hedgers, while those without a physical position to offset have been called speculators. The distinction between hedging and speculation in futures markets is less clear than it may appear, however. First, the oil futures market cannot function without speculative traders providing liquidity and assisting in the price discovery. The presence of speculators defined as non-commercial traders tells us nothing about whether speculation is excessive. Second, in practice, commercial traders may take a stance on the price of a commodity or may not hedge in the futures market despite having an exposure to the commodity. Both positions could be considered speculative. Likewise, efforts to detect speculators on the basis of high ex post profits are not compelling. After all, speculators take risky positions and the return on holding oil must reflect that risk. Another argument has been based on the relative size of the oil futures market and the physical market for oil. For example, it is often asserted that the daily trading volume in oil futures markets is several times as high as daily physical oil production, fuelling the suspicion that speculators are dominating this market. Academic research, however, shows that this ratio – after taking account of the number of days to delivery for the oil futures contract – is a fraction of about one half of daily US oil usage rather than a multiple, invalidating this argument. An alternative approach due to Holbrook Working (1960) has been to quantify speculation as an index measuring the percentage of speculation in excess of what is minimally necessary to meet short and long hedging demand. A high Working index number, however, does not necessarily indicate excessive speculation. One benchmark in evaluating this index is the historical values of this index for other commodity markets. By that standard the index numbers for the oil market even at their peak remain in the midrange of historical experience. Moreover, there does not appear to be a simple statistical relationship between this index of speculation and the evolution of the price of oil. For example, the correlation between the Working index of speculation and daily price changes is near zero. Sometimes excessive speculation is equated with market manipulation. For example, it has been asserted that financial traders are herding the market into positions from which they can profit, resulting in excessively high oil prices in the spot market. It is important to stress that market manipulation and speculation are economically distinct phenomena. The increased financialisation of oil markets does not by itself mean that market manipulation is on the rise, and there is no widespread evidence of market manipulation in oil futures markets. In short, there is no operational definition of excessive speculation. Indeed, existing academic studies have focused on indirect evidence of excessive speculation rather than direct evidence. The academic literature allows several conclusions: 1. There is clear evidence of the increased financialisation of oil futures markets. Whether this financialisation also was responsible for increased co-movement among different asset prices continues to be debated. Although there is some evidence of increased co-movement across asset classes, that co-comovement is also found in markets in which index funds do not operate and for which there are no futures exchanges, which is suggestive of an explanation based on common economic fundamentals. Indeed, there is evidence that price increases were somewhat higher for non-exchange traded commodities than for exchange-traded commodities, consistent with the view that financialisation actually dampened price increases. 2. There is no compelling evidence that changes in financial traders’ positions predict changes in the price of oil futures. Conflicting results in the literature in this regard can be traced to the use of datasets in some studies that are too aggregated to be informative about these predictive relationships or otherwise inappropriate. To the extent that any evidence of predictive power from index fund holdings to oil futures prices has been found, that evidence has not been based on rigorous real-time analysis and the extent of the out-of-sample gains has yet to be quantified. Finally, evidence of predictability is not evidence of causation. This predictive power, if any, may arise simply from traders’ positions responding to the underlying fundamentals of the oil market, for example. 3. Contrary to widely held beliefs that increases in oil futures prices precede increases in the spot price of oil, there is no evidence that oil futures prices significantly improve the out-of-sample accuracy of forecasts of the spot price of oil. This result holds whether one is forecasting the nominal price or the real price of oil. In contrast, there is evidence that models based on economic fundamentals help forecast the spot price of oil out of sample. 4. The simple static models that have been used to explain how an influx of financial investors may cause an increase in the spot price of oil are inconsistent with dynamic models of storage. Economic theory tells us that both spot and futures prices are jointly and endogenously determined. 5. The oil price–inventory relationship tells us nothing about the quantitative importance of speculation in oil markets. In particular, the absence or presence of speculative pressures in the oil market cannot be inferred from studying oil inventory data without a fully specified structural model. 6. Structural economic models of oil markets that nest alternative explanations of the evolution of the real price of oil (including speculative demand) provide strong evidence of speculation in 1979, 1986, 1990, and late 2002, but are not supportive of speculation being an important determinant of the real price of oil during 2003 and mid-2008. Instead these models imply that both spot and futures prices were driven by a common component reflecting economic fundamentals (Kilian and Murphy 2011). Alternative studies that claim to have found evidence of financial speculation suffer from identification problems and are uninformative. 7. There is no empirical evidence that the short-run price elasticity of gasoline demand is literally zero, as required by theoretical models that explain increases in the spot price based on speculation in oil futures markets without an accumulation of oil inventories. Recent oil demand elasticity estimates that take account of the identification problem in estimating demand elasticities from price and quantity data are considerably higher in magnitude than traditional estimates based on reduced form models. 8. Recently developed theoretical and empirical models of time-varying risk premia may help enhance our understanding of fluctuations in oil prices, but it is not clear how representative these models are for the global market for crude oil, and their ability to explain fluctuations in the price of oil has yet to be explored in full detail. 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.

## Economy Impact Turn

### High Oil prices hurt the economy

#### High oil prices hurt economic recovery

Freed 12 (Joshua, Associated Press, 7-6-12, <http://lubbockonline.com/filed-online/2012-02-27/us-stocks-fall-worries-high-oil-prices-could-hurt-recovery>, GHK)

U.S. stocks are falling because of worries that high oil prices could hurt the economic recovery. A few minutes after the opening bell, the Dow Jones industrial average was down more than 80 points, or 0.6 percent, to 12,903. The Standard & Poor's 500 index fell 9.6 points to 1,356. The Nasdaq composite index slipped 22 points to 2,941. Oil prices have risen 13 percent in the past month alone, and they closed on Friday at their highest point since May. There are worries that the spike in crude prices could hurt the economic recovery. The drop follows similar declines at stock markets overseas. In London, the FTSE 100 index fell 1 percent. Germany's DAX gave up 1.4 percent, and the CAC-40 in France fell 1.3 percent.

#### High oil prices cause a sluggish economy

Tzortzi 03 (Ellie, Associated Press, 7-6-12, <http://www.arabnews.com/node/233776>, GHK)

Claude Mandil said the recovery of Iraq’s oil industry after the US invasion had been much slower than anyone expected and the country was still pumping about a third of its pre-war levels. “The prices are too high for everybody, too high for the world economy, and that is one of the reasons the economy is sluggish and not recovering very well,” Mandil told reporters after a news conference in Vienna. Benchmark Brent crude oil has averaged $26.45 per barrel since the beginning of 2000, when OPEC set a $25 target for its own oil. This is a 44 percent increase on the previous decade, when Brent averaged $18.37.

#### High Oil prices leads to a recession

Tverberg 12 (Gail, writer and speaker about energy issues, Why Low Oil Prices Indicate the World is Heading for a Recession,07/5/12, Oil Prices, http://www.theburningplatform.com/?tag=gail-tveberg) DD

Are lower oil prices good news? Not really, if it means the world is sinking into recession. We know from recent past experience and from common sense that higher oil prices are a drag on oil importing economies, since if more money are spent on the same amount of oil, there is less to spend on discretionary goods and services. In addition, oil money sent to oil exporting countries is likely to be spent within those economies, rather than being reinvested in the oil importing company that the funds came from. Below the fold, we will discuss what is really happening with oil prices, and consider reasons why lower oil prices may be a signal that the world is again headed for deep recession.

### High oil prices hurt consumer spending, economy

#### High oil prices hurt the economy – consumer spending

Plumer 12 (Brad, Brad Plumer is a reporter at the Washington Post writing about domestic policy, particularly energy and environmental issues, 7-6-12, <http://www.washingtonpost.com/blogs/ezra-klein/post/will-high-gas-prices-hurt-the-recoveryor-help-it/2012/02/16/gIQAz8QwHR_blog.html>, GHK)

The conventional story is this: If U.S. consumers are spending more on gasoline, all that money gets spirited to overseas producers. Consumers have less funds for other purchases, which hurts the recovery. Manufacturers, too, see their profit margins sliced. The standard rule of thumb is that a $20 increase in the cost of a barrel of oil — roughly what we saw in 2011 — shaves about 0.4 percentage points off growth and boosts unemployment by 0.1 percentage points. Put another way, last year’s price increase cost the United States about $125 billion, which would be enough to negate the effects of the just-agreed-to payroll tax holiday.

### High oil prices hurt the economy – empirically true

#### High oil prices lead to a worse economy

Katusa 11 (Marin, writer for the Kasey Report,What Low Oil Prices Really Mean,9/23/11, Money Show,http://www.minyanville.com/businessmarkets/articles/oil-prices-oil-stocks-energy-prices/9/23/2011/id/37034?page=full) DD

Oil prices in large part reflect global sentiment toward our economic future -- prosperous, growing economies need more oil while slumping, shrinking economies need less, and so the price of crude indicates whether the majority believes we are headed for good times or bad. That explains the worry -- worried investors and economists are using oil prices as an indicator, and falling prices indicate bad times ahead. But oil prices have to correct when economies slow down, or else high energy costs drag things down even further. And the current relationship between oil prices and global economic output is not pretty. In fact, every time the cost of oil relative to global production has hit current levels -- and that’s after the sharp corrections earlier this month -- an economic slump, if not a recession, has followed, according to a Reuters article. The “warning signal” that is currently flashing red is the Oil Expense Indicator, which is the share of oil expenses as a proportion of worldwide gross domestic product (specifically, it is oil price times oil consumption divided by world GDP).

#### High oil prices disastrous for economic recovery and the stock market

Spano 12 (Kirk, 5-3-12, winner of the MarketWatch competition to find the world’s next great investing columnist, is an investment advisor and founder of Bluemound Asset Management, LLC in Elm Grove, WI. His experience includes having studied economics and political science at the University of Wisconsin-Milwaukee, being a member of their Institute of World Affairs, founding an innovative online insurance broker and having worked at a leading wealth management firm, 7-6-12, <http://www.marketwatch.com/story/high-oil-prices-could-be-an-economic-disaster-2012-03-05>, GHK)

High sustained oil prices would be a disaster for the economic recovery, the stock market and probably the bond market. Defining high and sustained is the challenge. In the 1973, 1980, 1991, 2001 and 2007 recessions, oil jumped and maintained a price threshold that was too high for the economy to take. In each case, the stock market corrected and in most cases bonds suffered in varying degrees as well. In early 2011, the price of oil crested only to retreat. A recession in 2011 was avoided, however, the recovery is exceptionally slow even into 2012, albeit for many reasons, including continued fallout from the financial, real estate and sovereign debt markets. Stock prices showed extreme volatility and corrected in mid-2011. In early 2012, oil prices are cresting again. The stock market is continuing a rebound rally, but the economic recovery remains tepid. At this point, energy costs account for about 6% of disposable income nationally which has not indicated "too much pain" in the past. However, a number approaching 8% has generally been a "hurt" point for consumers and the economy. At a sustained oil price around $120 per barrel or higher, the economy would suffer as the pain threshold is reached. So, what is a "sustained" high oil price? That's hard to tell, but it seems that "sustained" is roughly the better part of the U.S. summer crop growing and driving season. This makes a lot of sense logically. The price of food largely relies on the price of oil due to the mechanization of farming and people make decisions on vacation spending during the summer. Once high oil prices impact the cost of producing food and that is passed on at the supermarket, consumers will feel the double whammy of higher energy and food costs. If summer vacationing and spending is slow due to pinched budgets that will also impact the economy. Ultimately, earnings and then stock prices would fall. With oil prices rising going into the spring planting season, I strongly suspect that if prices do not deflate by mid-summer, we will see both an economic slowdown and a significant stock market correction shortly afterwards.

### A2: Lower prices will hurt the economy

#### High Prices drops Econ, not dips in prices

Plumer 12 (Brad, Reporter at the Washington Post , 4/13/12,Washington Post, If Oil Prices Drop Will That boost the Economy, http://www.washingtonpost.com/blogs/ezra-klein/post/if-oil-prices-drop-will-that-boost-the-economy/2012/04/13/gIQACcF4ET\_blog.html)DD

Instead, the real impact of oil prices stabilizing would likely be that they can’t wreak further havoc on the economy. This was a real worry. Many car industry analysts, for example, have been encouraged by the strong auto sales figures in the past few months. But, they warn, if gasoline prices keep bouncing around, consumers might put off buying a car yet again. A March survey by research firm TechnoMetrica found that the number of Americans hoping to buy or lease a car in the next six months had halved of late, thanks to higher fuel prices. Of course, even if the oil prices stabilize or dip slightly, they’re still high by historical levels. As Stuart Saniford demonstrates with charts, current oil prices are well above the levels during the 1970s oil shocks, even after adjusting for inflation.

### Lower oil prices now are key to bolster the economy

#### High oil prices hurt the global economy and destroys demand- adjustments to the market key to lowering prices

Haykel, Luciani, Woertz 12 (Haykel is professor of Near Eastern Studies at Princeton University, Luciani is an energy expert and Global Scholar at Princeton University, Woertz is completing a book on Middle East food security and is a senior research scholar at Princeton University, APRIL 18, “How to Lower the Price of Oil”

<http://www.foreignpolicy.com/articles/2012/04/18/how_to_lower_the_price_of_oil?page=0,1> TM)

If there's one thing that unites U.S. President Barack Obama, top-ranking Saudi officials, and Americans at the gas pump, it's this: The price of oil is too damn high. What's more, given physical and market realities, this should not be so. Despite the sanctions on Iran and the threatened loss of its export production, the world has no shortage of oil. Several oil suppliers are more than capable of picking up the slack left by Iran. U.S. and Canadian production, both actual and in the near future, is at historically high levels. And more significantly, Saudi Arabia's potential output is an unprecedented 12.5 million barrels per day. Still, fears abound about a shortage of oil. The United States and Europe are now contemplating the extraordinary, and unnecessary, measure of releasing oil from their strategic petroleum reserves to calm markets. And in a rare and significant move, Saudi Oil Minister Ali Naimi recently published an opinion article in the Financial Times expressing frustration at his inability, through reassuring statements, to bring down the price of oil, despite its abundance and the kingdom's ability to satisfy all demand. There is a double paradox here: The leading oil-exporting country in the world not only would like to see lower prices, it finds itself powerless to achieve the desired result. Nonetheless, the key to lowering prices lies with Saudi Arabia and, remarkably, it involves straightforward adjustments to the way oil is marketed and sold. There is, of course, solid logic behind Saudi Arabia's ambitions to bring down oil prices. Higher prices are not in the long-term interest of producers -- they are bad news for the global economy, and destroy demand in industrial and developing countries alike. The kingdom also has political reasons to be leery of elevated prices: It is concerned that the present high price is discouraging some oil-importing countries from curtailing their purchases of Iranian oil, thereby strengthening Tehran's hand with abundant financial revenues. Saudi Arabia is ready to increase its already high production volume further to 12.5 million barrels per day, an all-time high, and its storage facilities abroad have been filled to the brim, according to Naimi's article. It is anxious to assure international buyers that it could meet any shortfall of supplies -- for example, if Iranian oil disappeared from the market. Saudi Arabia may not want to be seen as actively undermining Iranian oil exports, but it is in fact doing just that. So, why do oil prices remain stubbornly high? Why does the market behave irrationally and not want to listen? The reason is simply that Saudi Arabia deliberately refrains from using the market power that it might command. This is the result of past experience, when Saudi Arabia's market share and revenues suffered as a result of OPEC's aggressive price setting policy that existed before 1985. In the years prior to that date, Saudi oil production collapsed from an all-time high of 10.3 million barrels per day to a minimum of 3.6 million, in the futile attempt to defend OPEC imposed prices. Ever since that experience, Saudi Arabia has refused to be tied to a rigid price target. As a result, Saudi Arabia is a price taker. Through press announcements and speeches, Saudi officials signal their intentions to international buyers and sellers and attempt to influence market sentiment, but the kingdom is not active as a seller on the open market. In practical terms, Saudi Arabia does not allow its oil to be traded, nor does it offer its oil without restrictions for resale. The kingdom only sells to final users -- that is, to refiners, who process the crude oil themselves. That means oil may be available, but will remain unsold if refiners do not have a demand for it. Saudi Arabia should behave instead like a central bank that periodically conducts auctions for government paper. The interest rate -- or, in this case, the price of oil -- is then determined by the result of auctions and trading on the secondary market. Saudi Arabia, after all, is and acts like the central bank of global oil. If Saudi Arabia allowed its crude to be traded -- that is, sold by the original buyer to some other final or intermediate client -- the abundant availability of Saudi oil would drive prices down. But the Saudis are afraid of playing an active role in the market because they do not want to be accused of "controlling" the price of oil. There is, however, a lot of ground between "controlling," at one extreme, and exercising no influence on the market on the other. It is in fact unlikely that Saudi Arabia could "control" the price even if it took a very active role in the market -- but it could certainly have an influence. Yet, the stereotype of OPEC as a monopolist intent on squeezing consumers is so deeply rooted that Saudi Arabia does not want to be seen influencing prices at all. The United States and other leading consumers should encourage Saudi Arabia to play a more active role. A global oil market in which Saudi Arabia exerts its proper influence would be less volatile and more closely representative of the equilibrium of supply and demand. It is in our best interest that Saudi Arabia should succeed in moderating prices. As the revival of oil and gas production in North America and in other parts of the world gains strength, it will be in the interest of all to maintain prices at a level that is neither too low nor too high. A much lower price would nip the expansion of new sources in the bud, while higher prices could abort the fragile economic recovery. Saudi price targets, which lie in a band that hovers around $100 per barrel, are not out of line with the interests of the industrial countries. Saudi Arabia should be supported, and even urged, to be a price leader rather than a price taker. Oil prices should be discussed in the context of G-20 and other international gatherings much in the same way as interest rates or exchange rates are. No market can function well if the No. 1 supplier remains on the sidelines. Getting Saudi Arabia in the game will be good for American consumers, and bad for the mullahs in Tehran.

### High Oil Prices 🡪 Inflation

#### High oil prices cause inflation and kill the economy

Rubin, 11

(Jeff, Chief Economist for a North American investment bank, 1/26, Jeff Rubin, “How Do Oil Shocks Cause Recessions?” <http://www.jeffrubinssmallerworld.com/2011/01/26/how-do-oil-shocks-cause-recessions/>, Accessed: 7/9/12, GJV)

But by far the greatest impact that oil price shocks have on the global economy is the one they make on inflation and, hence, interest rates. This linkage is the means by which they have typically delivered a mortal blow to economic growth. Oil shocks have always given rise to growth-ending increases in interest rates as central banks are forced to respond to the inflationary fallout they leave behind. The last recession was no exception. As oil prices soared from $35 per barrel in early 2004 to almost $150 per barrel in the summer of 2008, consumer price inflation in the US tripled to a rate of almost six per cent. It didn’t take long before interest rates caught up to inflation and, in the process, blew up the massively over-leveraged subprime mortgage market and the economy with it.

#### High oil prices cause inflation and decrease economic growth

Ryden, 11

(John, global warming examiner for Examiner, 3/2, Examiner.com, “Will high oil prices cause inflation?” <http://www.examiner.com/article/will-high-oil-prices-cause-inflation>, Accessed: 7/9/12, GJV)

As oil prices increase, consumers will have to spend more money on gasoline. This decreases disposable income, which will decrease economic growth. A large enough price increase could push the economy back into a recession, particularly if oil prices stay high for a long period of time. Federal Reserve Chairman Ben Bernanke testified before congress that he thought a temporary increase in oil prices would have little effect on inflation, but a sustained increase in oil prices would “represent a threat both to economic growth and to overall price stability, particularly if they were to cause inflation expectations to become less well anchored.” There is not much the government can do right now to alleviate the inflation pressure. Over the long term there are several actions that will reduce inflationary pressure: Increase oil production in the United States. Make cars more efficient. Substitute natural gas for gasoline and diesel fuel.

## Drilling impact turn

### Drilling Turn

#### High Oil Prices Stimulate Drilling

Hunt, President of Scalable Growth Strategy Advisors, VP-Global Analytics and Data at IHS, 2012

(Gary, 5-13-12, Oil Price – Oil and Energy News, America's Horizontal Drilling Technology will Transform the World, <http://oilprice.com/Energy/Energy-General/Americas-Horizontal-Drilling-Technology-will-Transform-the-World.html>, 7-5-12, GHK)

The conventional oil and gas sector was setback by the 2010 Deepwater Horizon oil spill in the Gulf of Mexico. Now two years later, Federal permitting of new drilling is returning to average pre-spill approval rates of six new permits per month. There are new regulations in place to prevent a repeat of the accident and new safety regulations to protect crews, but reports from the New Orleans Economic Development Agency confirm the US Government’s newly organized Bureau of Safety and Environment Enforcement status reporting on permitting is returning to pre-spill average permit approval levels. The reasons for this return to normal include the global demand for energy and worries over the potential for supply disruptions in the Middle East. High oil prices also stimulate drilling and E&P activities. And reality is setting in here at home too as the combination of the looming 2012 election pressure to get things moving again to create jobs and progress in spill clean-up and settlement of litigation by BP. But progress in the Gulf of Mexico was offset by disputes over approval of the Keystone XL pipeline and the relentless opposition to expanding use of fossil fuels by the environmental constituencies that make up the President’s Democratic base.

Oil Spill Due to Deepwater Drilling

Buczynski, Freelance, 11 (Beth, 12-22-11, New Oil Spill Contaminates Gulf Near Former Deepwater Horizon, <http://www.care2.com/causes/new-oil-spill-contaminates-gulf-near-former-deepwater-horizon.html>, 7-7-12, GHK)

A Shell Oil rig drilling in deepwater spilled over 13,000 gallons of toxic oil and drilling fluids into the Gulf of Mexico earlier this week. The area where the Nautilus was drilling is only about 20 miles from the site of the BP oil spill. Shell’s Deepwater Nautilus was drilling an exploratory well in about 7,000 feet of water on Sunday when drilling fluid and oil began leaking from a booster line. The rig is owned and operated by Transocean, the same company that was operating the BP Deepwater Horizon when it exploded and sank in early 2010, causing the worst environmental disaster in American history The Shell spill occurred just days after the Obama administration gave Royal Dutch Shell the green light to drill in the Arctic’s Chukchi Sea beginning next summer – despite the fact that there is no proven way to clean up an oil spill in the Arctic’s extreme conditions and there is significant dearth of scientific information, making it impossible to understand the impacts of Shell’s activities.

#### Oil spills cause extinction of marine species – reducing biodiversity

Center for Biological Diversity 2k

(October 4, Center for Biological Diversity, non-profit environmental organization dedicated

to the protection of native species and their habitats in the Western Hemisphere, PETITION TO REVISE THE CRITICAL HABITAT DESIGNATION FOR THE NORTHERN RIGHT WHALE (EUBALAENA GLACIALIS) UNDER THE ENDANGERED SPECIES ACT,

<http://www.biologicaldiversity.org/species/mammals/North_Pacific_right_whale/pdfs/PETITION.PDF>) CL

Offshore oil and gas exploration in the Bering Sea and in eastern North Pacific waters has occurred in the past. Industry interest in further exploration has been contingent on market prices for oil as well as the development of extraction technologies; as the price for oil continues to rise there will be greater incentive to exploit reserves along coastal Alaska. Further exploration activities could create a catastrophic event in the life history of the right whale: as a surface feeding species, an oil spill could critically doom the already rare species to extinction. Oil spills create tar balls that appear in the late stages of an oil spill.65 Broken off baleen filaments coated with oil and tarballs could be ingested and cause blockage in the stomach of a right whale.66 Because this effect would likely be fatal, and because the tar can persist in the environment for upwards of four years, an oil spill has the potential to decimate the remaining population.

### High Prices cause drilling

#### Oil Prices Keep Rising – High Prices Continue to Stimulate Drilling

Apex Freight Factoring, Freight Bill Factoring, 2012

(Apex Freight Factoring, 7-7-12, Oil & Gas Drilling Driving Freight Volumes, <http://www.apexcapitalcorp.com/blog/oil-gas-drilling-driving-freight-volumes>, 7-7-12, GHK)

Overall volume in the freight market continues to grow at a modest rate, rising 1.9 percent from March to April this year, according to the Cass Freight Shipments Index. That moderate growth rate is similar to the overall increases of 2.1 percent and 2.5 percent in February and March. Within the overall freight market, however, certain segments including the oil and gas industries are experiencing much stronger rates of growth. The oil and gas exploration sector, for example, increased at a rate that was 7.2 percent higher this February compared with February 2011. Oil and gas exploration’s growth rate was also nearly 20 percent higher than it was in February 2007, according to freight industry statistics. Likewise, the natural gas extraction segment of the industry rose nearly 18 percent during January and February 2012 compared with the first two months of 2011. That sector’s rate was more than 37 percent higher than the same two months in 2007.The price of crude oil remains elevated around the world, meanwhile, and those high prices continue to stimulate drilling for oil as well as overall oil exploration by industry leaders. This increased activity translates to robust growth in the demand for transportation services provided by businesses aligned with the oil exploration industry.

### Deepwater drilling prevents repairs

#### Deep Water Drilling Makes Repairs Nearly Impossible

Pravica, Professor at University of Nevada, Las Vegas, 2012

(Michael, 4-24-12, USA Today, “Letters: Science, not profit, must lead deep water drilling,” <http://www.usatoday.com/news/opinion/letters/story/2012-04-24/Ted-Danson-oil-Deepwater-Horizon/54513946/1>, 7-7-12, GHK)

There are a few critical points not mentioned in the USA TODAY editorial on the BP oil spill that should have been addressed ("Editorial: 2 years after BP spill, lower risks"). First of all, deep water drilling represents a "brave new world" of oil exploration and novel technology as humans probe depths of water, oil and rock that sustain thousands of atmospheres of pressure. At these levels, the technology used to drill and extract oil can easily fail as we approach the yield strengths of many of the confining materials subjected to extreme conditions. There is also a high chance of significant fracture of the ocean/sea floor in drilling and hole erosion from gushing, hot and high pressure oil (along with particulates and other mineral-rich fluids) that could make repair nearly impossible and could permanently poison our waters.

### Deepwater drilling causes spills

#### Oil Spill Due to Deepwater Drilling

Buczynski, Freelance, 11 (Beth, 12-22-11, New Oil Spill Contaminates Gulf Near Former Deepwater Horizon, <http://www.care2.com/causes/new-oil-spill-contaminates-gulf-near-former-deepwater-horizon.html>, 7-7-12, GHK)

A Shell Oil rig drilling in deepwater spilled over 13,000 gallons of toxic oil and drilling fluids into the Gulf of Mexico earlier this week. The area where the Nautilus was drilling is only about 20 miles from the site of the BP oil spill. Shell’s Deepwater Nautilus was drilling an exploratory well in about 7,000 feet of water on Sunday when drilling fluid and oil began leaking from a booster line. The rig is owned and operated by Transocean, the same company that was operating the BP Deepwater Horizon when it exploded and sank in early 2010, causing the worst environmental disaster in American history The Shell spill occurred just days after the Obama administration gave Royal Dutch Shell the green light to drill in the Arctic’s Chukchi Sea beginning next summer – despite the fact that there is no proven way to clean up an oil spill in the Arctic’s extreme conditions and there is significant dearth of scientific information, making it impossible to understand the impacts of Shell’s activities.

### Oil companies will pursue deepwater drilling

#### **New Frontier in Oil – Deepwater Drilling**

Broder, Environmental Journalist, Krauss, Environmental Journalist, 2012

(John, Clifford, 3-23-12, The New York Times, “New and Frozen Frontier Awaits Offshore Oil Drilling,” <http://www.nytimes.com/2012/05/24/science/earth/shell-arctic-ocean-drilling-stands-to-open-new-oil-frontier.html?pagewanted=all>, 7-9-12, GHK)

Shortly before Thanksgiving in 2010, the leaders of the commission President Obama had appointed to investigate the Deepwater Horizon oil spill in the Gulf of Mexico sat down in the Oval Office to brief him. After listening to their findings about the BP accident and the safety of deepwater drilling, the president abruptly changed the subject. Barring a successful last-minute legal challenge by environmental groups, Shell will begin drilling test wells off the coast of northern Alaska in July, opening a new frontier in domestic oil exploration and accelerating a global rush to tap the untold resources beneath the frozen ocean.

#### Feds Invest in Deepwater Drilling Tech

McMahon, Contributor: Green Technology, Energy and the Environment, 2012

(Jeff, 5-26-12, Forbes, “Feds Invest in Deepwater Drilling Tech,” <http://www.forbes.com/sites/jeffmcmahon/2012/05/26/feds-invest-in-deepwater-drilling-tech/>, 7-9-12, GHK)

The Department of Energy has selected 13 projects to enhance the environmental safety of deepwater drilling projects, particularly by improving the cement casing process that investigators cited as a cause of BP’s Deepwater Horizon spill in the Gulf of Mexico in 2010. “Research needs addressed by the projects include (1) new and better ways to monitor displacement during casing cementing using intelligent casing and smart materials, and (2)assessing corrosion, stress cracking, and scale at extreme temperature and pressure. All of the projects aim to develop and validate new technologies to enhance safety and environmental sustainability,” according to a DOE press release. The initial cause of the Deepwater Horizon disaster was “failure of a cement barrier in the production casing string,” according to the final investigative report by the U.S. Coast Guard and Bureau of Ocean Energy Management

### Oil spills Impacts

#### Oil spills cause extinction of marine species – reducing biodiversity

Center for Biological Diversity 2k

(October 4, Center for Biological Diversity, non-profit environmental organization dedicated

to the protection of native species and their habitats in the Western Hemisphere, PETITION TO REVISE THE CRITICAL HABITAT DESIGNATION FOR THE NORTHERN RIGHT WHALE (EUBALAENA GLACIALIS) UNDER THE ENDANGERED SPECIES ACT,

<http://www.biologicaldiversity.org/species/mammals/North_Pacific_right_whale/pdfs/PETITION.PDF>) CL

Offshore oil and gas exploration in the Bering Sea and in eastern North Pacific waters has occurred in the past. Industry interest in further exploration has been contingent on market prices for oil as well as the development of extraction technologies; as the price for oil continues to rise there will be greater incentive to exploit reserves along coastal Alaska. Further exploration activities could create a catastrophic event in the life history of the right whale: as a surface feeding species, an oil spill could critically doom the already rare species to extinction. Oil spills create tar balls that appear in the late stages of an oil spill.65 Broken off baleen filaments coated with oil and tarballs could be ingested and cause blockage in the stomach of a right whale.66 Because this effect would likely be fatal, and because the tar can persist in the environment for upwards of four years, an oil spill has the potential to decimate the remaining population.

#### Even small spills can lead to extinction of marine species – reducing biodiversity

WWF 12

(2012, global-scale conservation organization, The Arctic Threats, <http://www.worldwildlife.org/what/wherewework/arctic/other-threats.html>) CL

The Arctic holds the world's largest remaining untapped gas reserves and some of its largest undeveloped oil reserves. A significant proportion of these reserves lie offshore, in the Arctic's shallow and biologically productive shelf seas. According to the oil industry, the Arctic is the final frontier for hydrocarbon development. Oil and gas development will require the building of massive infrastructure through ecologically intact areas. Infrastructure has direct impacts, such as habitat destruction, fragmentation of migration routes, erosion, gravel mining for pads, harbours and roads and draining freshwater resources for ice roads. Its indirect impacts, however, can be just as great: creation of new infrastructure for oil and gas will dramatically lower the barriers to entry for other kinds of resource exploitation, such as logging of sensitive timberline forests, commercial fisheries, mining and other commercial use of wild species. Subsea infrastructure, such as pipelines to shore from offshore installations, can cause very significant damage to benthic organisms, such as corals, and to sea floor habitats. Oil spills, whether from blowouts, pipeline leaks or shipping accidents, pose a tremendous risk to arctic ecosystems. These ecosystems are characterised by a short productive season, low temperatures, and limited sunlight. As a result, it can take many decades for them to recover from habitat disruption, tundra disturbance and not least oil spills. Marine ecosystems are particularly vulnerable to oil spills. Biota at higher trophic levels, for example cod, seals and seabirds, tend to congregate in extremely large groups during the most productive time of year. This means that a single large oil spill in the wrong place and at the wrong time of year can have very serious, population-wide impacts on seabirds, fish, and some marine mammals. The problem is particularly acute in ice-infested waters: there continues to be no effective method for containing and cleaning up an oil spill in ice conditions.

#### Loss of biodiversity causes extinction

Diner 94

(David N., Judge Advocate General’s Corps of US Army Military Law Review, Winter, Military Law Review, <http://www.loc.gov/rr/frd/Military_Law/Military_Law_Review/pdf-files/27687D~1.pdf>) CL

No species has ever dominated its fellow species as man has. In most cases, people have assumed the God-like power of life and death-extinction or survival-over the plants and animals of the world. For most of history, mankind pursued this domination with a single-minded determination to master the world, tame the wilderness, and exploit nature for the maximum benefit of the human race.67 In past mass extinction episodes, as many as ninety percent of the existing species perished, and yet the world moved forward, and new species replaced the old. So why should the world be concerned now? The prime reason is the world's survival. Like all animal life, humans live off of other species. At some point, the number of species could decline to the point at which the ecosystem fails, and then humans also would become extinct. No one knows how many species the world needs to support human life, and to find out-by allowing certain species to become extinct-would not be sound policy. In addition to food, species offer many direct and indirect benefits to mankind.68 2. Ecological Value. -Ecological value is the value that species have in maintaining the environment. Pest,69 erosion, and flood control are prime benefits certain species provide to man. Plants and animals also provide additional ecological services-pollution control, 70 oxygen production, sewage treatment, and biodegradation.71 3. Scientific and Utilitarian Value. -Scientific value is the use of species for research into the physical processes of the world.72 Without plants and animals, a large portion of basic scientific research would be impossible. Utilitarian value is the direct utility humans draw from plants and animals.73 Only a fraction of the earth’s species have been examined, and mankind may someday desperately need the species that it is exterminating today. To accept that the snail darter, harelip sucker, or Dismal Swamp southeastern shrew74 could save mankind may be difficult for some. Many, if not most, species are useless to man in a direct utilitarian sense. Nonetheless, they may be critical in an indirect role, because their extirpations could affect a directly useful species negatively. In a closely interconnected ecosystem, the loss of a species affects other species dependent on it.75 Moreover, as the number of species decline, the effect of each new extinction on the remaining species increases dramatically.76 4. Biological Diversity. -The main premise of species preservation is that diversity is better than simplicity.77 As the current mass extinction has progressed, the world’s biological diversity generally has decreased. This trend occurs within ecosystems by reducing the number of species, and within species by reducing the number of individuals. Both trends carry serious future implications. Biologically diverse ecosystems are characterized by a large number of specialist species, filling narrow ecological niches. These ecosystems inherently are more stable than less diverse systems. “The more complex the ecosystem, the more successfully it can resist a stress . . . . [like a net, in which each knot is connected to others by several strands, such a fabric can resist collapse better than a simple, unbranched circle of threads-which if cut anywhere breaks down as a whole.”79 By causing widespread extinctions, humans have artificially simplified many ecosystems. As biologic simplicity increases, so does the risk of ecosystem failure. The spreading Sahara Desert in Africa, and the dustbowl conditions of the 1930s in the United States are relatively mild examples of what might be expected if this trend continues. Theoretically, each new animal or plant extinction, with all its dimly perceived and intertwined affects, could cause total ecosystem collapse and human extinction. Each new extinction increases the risk of disaster. Like a mechanic removing, one by one, the rivets from an aircraft’s wings,\*’) mankind may be edging closer to the abyss.

## Heg impact turn

### Hegemony Turn

#### Increase in oil prices weaken U.S. military

RAND 09 (Rand Corporation, NoDate, a nonprofit research organization providing objective analysis and effective solutions that address the challenges facing the public and private sectors around the world, 7-6-12, <http://www.rand.org/pubs/monographs/2009/RAND_MG838.pdf>, GHK)

A major national security concern for U.S. policymakers is the potential for an abrupt reduction in the supply of oil and a corresponding large increase in the price to result in a sharp fall in economic output. Such a decline would undermine U.S. national security, for example, by weakening U.S. global economic and political influence and the ability of the United States to pay for U.S. military forces.

#### U.S. military power key to U.S. leadership and hegemony

Kagan 12 (Robert, 2-22-12, Senior Fellow at the Brookings Institute, 7-6-12, <http://www.washingtonpost.com/opinions/the-importance-of-us-military-might-shouldnt-be-underestimated/2012/02/02/gIQAX5pVlQ_story.html>, GHK)

These are sensible arguments. Power takes many forms, and it’s smart to make use of all of them. But there is a danger in taking this wisdom too far and forgetting just how important U.S. military power has been in building and sustaining the present liberal international order. That order has rested significantly on the U.S. ability to provide security in parts of the world, such as Europe and Asia, that had known endless cycles of warfare before the arrival of the United States. The world’s free-trade, free-market economy has depended on America’s ability to keep trade routes open, even during times of conflict. And the remarkably wide spread of democracy around the world owes something to America’s ability to provide support to democratic forces under siege and to protect peoples from dictators such as Moammar Gaddafi and Slobodan Milosevic. Some find it absurd that the United States should have a larger military than the next 10 nations combined. But that gap in military power has probably been the greatest factor in upholding an international system that, in historical terms, is unique — and uniquely beneficial to Americans. Nor should we forget that this power is part of what makes America attractive to many other nations. The world has not always loved America. During the era of Vietnam and Watergate and the ugly last stand of segregationists, America was often hated. But nations that relied on the United States for security from threatening neighbors tended to overlook the country’s flaws. In the 1960s, millions of young Europeans took to the streets to protest American “imperialism,” while their governments worked to ensure that the alliance with the United States held firm.

#### U.S. hegemony is key to prevent nuclear war and a global economic collapse.

Ferguson 4

(Niall, Senior Fellow at Stanford University’s Hoover Institution, July/August,

A World Without Power, Foreign Policy, Jul/Aug, Academic Search Elite)

If the United States retreats from its hegemonic role, who would supplant it? Not Europe, not China, not the Muslim world--and certainly not the United Nations. Unfortunately, the alternative to a single superpower is not a multilateral utopia, but the anarchic nightmare of a new Dark Age. … So what is left? Waning empires. Religious revivals. Incipient anarchy. A coming retreat into fortified cities. These are the Dark Age experiences that a world without a hyperpower might quickly find itself reliving. The trouble is, of course, that this Dark Age would be an altogether more dangerous one than the Dark Age of the ninth century. For the world is much more populous-roughly 20 times more--so friction between the world's disparate "tribes" is bound to be more frequent. Technology has transformed production; now human societies depend not merely on freshwater and the harvest but also on supplies of fossil fuels that are known to be finite. Technology has upgraded destruction, too, so it is now possible not just to sack a city but to obliterate it. For more than two decades, globalization--the integration of world markets for commodities, labor, and capital--has raised living standards throughout the world, except where countries have shut themselves off from the process through tyranny or civil war. The reversal of globalization--which a new Dark Age would produce--would certainly lead to economic stagnation and even depression. As the United States sought to protect itself after a second September 11 devastates, say, Houston or Chicago, it would inevitably become a less open society, less hospitable for foreigners seeking to work, visit, or do business. Meanwhile, as Europe's Muslim enclaves grew, Islamist extremists' infiltration of the EU would become irreversible, increasing trans-Atlantic tensions over the Middle East to the breaking point. An economic meltdown in China would plunge the Communist system into crisis, unleashing the centrifugal forces that undermined previous Chinese empires. Western investors would lose out and conclude that lower returns at home are preferable to the risks of default abroad. The worst effects of the new Dark Age would be felt on the edges of the waning great powers. The wealthiest ports of the global economy--from New York to Rotterdam to Shanghai-- would become the targets of plunderers and pirates. With ease, terrorists could disrupt the freedom of the seas, targeting oil tankers, aircraft carriers, and cruise liners, while Western nations frantically concentrated on making their airports secure. Meanwhile, limited nuclear wars could devastate numerous regions, beginning in the Korean peninsula and Kashmir, perhaps ending catastrophically in the Middle East. In Latin America, continue their deadly work. The few remaining solvent airlines would simply suspend services to many cities in these continents; who would wish to leave their privately guarded safe havens to go there? For all these reasons, the prospect of an apolar world should frighten us today a great deal more than it frightened the heirs of Charlemagne. If the United States retreats from global hegemony--its fragile self-image dented by minor setbacks on the imperial frontier--its critics at home and abroad must not pretend that they are ushering in a new era of multipolar harmony, or even a return to the good old balance of power. Be careful what you wish for. The alternative to unipolarity would not be multipolarity at all. It would be apolarity--a global vacuum of power. And far more dangerous forces than rival great powers would benefit from such a not-so-new world disorder.

### Hegemony Extensions

#### High Oil Prices Hurt the Military

LaMonica, Reporter at CNET News & Journalist for 20 years covering the high-tech industry and green-tech startups, 2011

(Martin, 8-16-11, <http://www.lexisnexis.com/lnacui2api/results/docview/docview.do?docLinkInd=true&risb=21_T15077427604&format=GNBFI&sort=BOOLEAN&startDocNo=1&resultsUrlKey=29_T15077427608&cisb=22_T15077427607&treeMax=true&treeWidth=0&csi=299488&docNo=4>, GHK)

The federal government is using the weight of the military to counter years of disappointment with biofuels and commercialize drop-in replacements for diesel and jet fuel. Three government agencies--the Departments of the Navy, Agriculture, and Energy--today announced a memorandum of understanding to spend $510 million over three years to scale up the industry for advanced biofuels. The agencies will put out a request for proposals to build commercial-scale biorefineries, called "pioneer plants," able to make diesel and jet fuel from non-food sources at prices competitive with fossil fuels. The biorefineries will aim to be built in different locations for a diverse feedstock supply and to encourage economic activity in rural areas. To participate, commercial companies will have to invest at least as much as the government puts in, said Navy Secretary Ray Mabus during a media call with Agriculture Secretary Tom Vilsack and Energy Secretary Steven Chu today. Funding for the program will be split equally among the three agencies and come from existing sources, they said. "I can think of nothing more vital to national security than to diversify our forms of energy," Mabus said. The Navy will act as a customer for production from these advanced biofuel refineries and define technical requirements for aircraft and boats. Mabus set an ambitious target of getting at least half of its energy from non-fossil fuel sources by 2020. Transporting fuel creates security vulnerabilities in areas of combat and the volatility of oil prices hurts the military, which consumes about 80 percent of all energy from the federal government. When the price of oil goes up one dollar, it costs the Navy an additional $30 million in fuel costs. The Navy has already successfully tested biofuels or a blend of biofuel and petroleum in aircraft, he added.

#### U.S. military key to U.S. success, prevents war

Baker 11 (Frank, 5-23-11, American Forces Press Service, 7-6-12, <http://www.af.mil/news/story.asp?id=123257054>, GHK)

The ultimate guarantee against success of aggressors, dictators and terrorists in the 21st century is the size, strength and global reach of the United States military, Defense Secretary Robert M. Gates said May 22. "Beyond the current wars, our military credibility, commitment and presence are required to sustain alliances, to protect trade routes and energy supplies, and to deter would-be adversaries from making the kind of miscalculations that so often lead to war," Secretary Gates said, speaking at a graduation commencement ceremony at the University of Notre Dame in Indiana.

#### Projections Key to Hegemony

Joffe, Co-Editor of Die Zeit, a Senior Fellow at Stanford's Freeman Spogli Institute for

International Studies and Fellow in International Relations at the

Hoover Institution at Stanford University, 2009

(Josef, NoDate, Council on Foreign Relations, “The Default Power,” <http://web.clas.ufl.edu/users/zselden/coursereading2011/Joffe.pdf>, 7-9-12, GHK)

Nor can any other great power boast the United States' naval strength, a measure of a state's ability to project power quickly and over great distances. In 2005, as Robert Work, a defense analyst and now undersecretary of the U.S. Navy, has shown, the U.S. Navy commanded a naval tonnage exceeding the world's next 17 fleets combined. This is a dramatic shift from 1922, when the Washington Naval Conference tried to set the rules for a balance of power at sea. The three top competitors -- the United States, the United Kingdom, and Japan -- were allowed navies in the ratio of 5:5:3. At the time, the United Kingdom, the world's greatest maritime power, had a total naval tonnage of 525,000 tons. Germany, France, and Russia also had navies capable of fighting halfway around the world. Today, however, China, India, Japan, Russia, and the EU put together could not conduct a major war 8,000 miles from their shores, as the United States has done twice in Iraq and once in Afghanistan in recent years.

## Authoritarianism Turn

#### High oil price fosters authoritarianism and violence – decrease in oil exports and price promote democracy.

Brynjar and SKJØLBERG 5

(LIA, head of FFI's research on international terrorism and global jihadism, Katja, Assistant Professor at the University of Adger, 2005-06-28, FORSVARETS FORSKNINGSINSTITUTT, “CAUSES OF TERRORISM: An Expanded and Updated Review of the Literature”, <http://rapporter.ffi.no/rapporter/2004/04307.pdf>) CL

Modernisation processes are all very different, but some trajectories of economic development have greater propensity of fostering conflict than others. The literature on modernisation theories, rentier states, and resource conflicts, has highlighted that export of natural resources, especially oil, mineral resources, and diamonds, hampers economic development, impedes the creation of a democratic order, and increases the likelihood of civil war.91 This is first and foremost the case in underdeveloped countries where political institutions are weak, corruption is pervasive, and elite groups fight over the spoils. While resource scarcity previously was believed to be a major conflict-generating factor, it is increasingly acknowledged that the very abundance of certain natural resources is perhaps more dangerous than scarcity.92 Sudden influx of petro-dollars, diamond revenues, or profits from rare timber and gold mines, create dysfunctional economies (‘the Dutch disease’) and foster cleptocratic regimes and authoritarian rentier states.93 Such regimes are associated with a higher likelihood for violent conflict.

#### Totalitarianism is a threat even greater than nuclear war

Rummel 1

(RJ, Political scientist, University of Hawaii, Death by Government, http://www.hawaii.edu/powerkills/dbg.chap1.html)

Consider also that library stacks have been written on the possible nature and consequences of nuclear war and how it might be avoided. Yet, in the life of some still living we have experienced in the toll from democide (and related destruction and misery among the survivors) the equivalent of a nuclear war, especially at the high near 360,000,000 end of the estimates. It is as though one had already occurred! Yet to my knowledge, there is only one book dealing with the overall human cost of this "nuclear war."

## Internal Link answers

### AT: Proliferation/Nuclear War

#### No impact- Russian economic downturn doesn’t lead to proliferation

RAND 05

(nonprofit research organization providing objective analysis and effective solutions that address the challenges facing the public and private sectors around the world, Diversion of Nuclear, Biological, and Chemical Weapons Expertise from the Former Soviet Union Understanding an Evolving Problem, <http://www.rand.org/pubs/documented_briefings/2005/RAND_DB457.pdf>, CL)

Desire to remain in native land/fear of the unknown. While economic conditions in Russia may be tough, an unfamiliar existence in a foreign land, living far away from one’s community and loved ones, and promises of money and prestige from states and sub-national groups that many Russians consider inferior may provide little incentive for specialists to risk their careers and home life for the sake of profiting from proliferation. Fear of grave consequences. The prospect of being considered a traitor or “enemy of the people” weighs heavily on a specialist who may be deciding to proliferate.

#### No impact – nuclear deterrence

Brown 7

(Harold, U.S. Secretary of Defense from 1977 to 1981 in the cabinet of President Jimmy Carter, The MIT Press, New Nuclear Realities, page 9, Project Muse) CL

During the Cold War, the possession of massive nuclear arsenals by the United States and the Soviet Union worked to deter both sides from using those arsenals against each other in a direct attack, either by surprise or as an extension of conventional war. Paradoxically, perhaps, it also inhibited direct engagement of their conventional forces with each other, because of the concern that such an engagement would escalate to a nuclear conflict that would destroy both sides. Instead, the two superpowers engaged in armed conflict with others, sometimes with clients of the other side. Although not the only factor that kept the two military superpowers from a hot war with each other, nuclear deterrence worked at both levels. It was not a trivial achievement because it is difficult to find other examples during recent centuries of heavily armed, ideologically opposed major powers with conflicting interests that managed to avoid direct armed conflict.

#### Nuclear war won’t escalate

Quinlan 97

(Michael, Under-Sec Defense, 1997, Thinking about Nuclear Weapons, p 31)

It is entirely possible, for example, that the initial use of nuclear weapons, breaching a barrier that has held since 1945, might so appall both sides in a conflict that they recognized an overwhelming common interest in composing their differences. The human pressures in that direction would be very great. Even if initial nuclear use did not quickly end the fighting, the supposition of inexorable momentum in a developing exchange, with each side rushing to overreaction amid confusion and uncertainty, is implausible; it fails to consider what the decision-makers’ situation would really be. Neither side could want escalation; both would be appalled at what was going on; both would be desperately looking for signs that the other was ready to call a halt; both, given the capacity for evasion or concealment which modern delivery systems can possess, could have in reserve ample forces invulnerable enough not to impose ‘use or lose’ pressures. As a result neither could have any predisposition to suppose, in an ambiguous situation of enormous risk, that the right course when in doubt was to go on copiously launching weapons. And none of this analysis rests on any presumption of highly subtle, pre-concerted or culture-specific rationality; the rationality required is plain and basic.

#### Proliferation does not escalate to war. It de-escalates conflicts

Tepperman 9

(John , 9-7, journalist based in New York City, Why Obama should learn to love the bomb, Newsweek, lexis)

A growing and compelling body of research suggests that nuclear weapons may not, in fact, make the world more dangerous, as Obama and most people assume. The bomb may actually make us safer. In this era of rogue states and transnational terrorists, that idea sounds so obviously wrongheaded that few politicians or policymakers are willing to entertain it. But that's a mistake. Knowing the truth about nukes would have a profound impact on government policy. Obama's idealistic campaign, so out of character for a pragmatic administration, may be unlikely to get far (past presidents have tried and failed). But it's not even clear he should make the effort. There are more important measures the U.S. government can and should take to make the real world safer, and these mustn't be ignored in the name of a dreamy ideal (a nuke-free planet) that's both unrealistic and possibly undesirable. The argument that nuclear weapons can be agents of peace as well as destruction rests on two deceptively simple observations. First, nuclear weapons have not been used since 1945. Second, there's never been a nuclear, or even a nonnuclear, war between two states that possess them. Just stop for a second and think about that: it's hard to overstate how remarkable it is, especially given the singular viciousness of the 20th century. As Kenneth Waltz, the leading "nuclear optimist" and a professor emeritus of political science at UC Berkeley puts it, "We now have 64 years of experience since Hiroshima. It's striking and against all historical precedent that for that substantial period, there has not been any war among nuclear states." To understand why--and why the next 64 years are likely to play out the same way--you need to start by recognizing that all states are rational on some basic level. Their leaders may be stupid, petty, venal, even evil, but they tend to do things only when they're pretty sure they can get away with them. Take war: a country will start a fight only when it's almost certain it can get what it wants at an acceptable price. Not even Hitler or Saddam waged wars they didn't think they could win. The problem historically has been that leaders often make the wrong gamble and underestimate the other side--and millions of innocents pay the price. Nuclear weapons change all that by making the costs of war obvious, inevitable, and unacceptable. Suddenly, when both sides have the ability to turn the other to ashes with the push of a button--and everybody knows it--the basic math shifts. Even the craziest tin-pot dictator is forced to accept that war with a nuclear state is unwinnable and thus not worth the effort. As Waltz puts it, "Why fight if you can't win and might lose everything?" Why indeed? The iron logic of deterrence and mutually assured destruction is so compelling, it's led to what's known as the nuclear peace: the virtually unprecedented stretch since the end of World War II in which all the world's major powers have avoided coming to blows. They did fight proxy wars, ranging from Korea to Vietnam to Angola to Latin America. But these never matched the furious destruction of full-on, great-power war (World War II alone was responsible for some 50 million to 70 million deaths). And since the end of the Cold War, such bloodshed has declined precipitously. Meanwhile, the nuclear powers have scrupulously avoided direct combat, and there's very good reason to think they always will. There have been some near misses, but a close look at these cases is fundamentally reassuring--because in each instance, very different leaders all came to the same safe conclusion. Take the mother of all nuclear standoffs: the Cuban missile crisis. For 13 days in October 1962, the United States and the Soviet Union each threatened the other with destruction. But both countries soon stepped back from the brink when they recognized that a war would have meant curtains for everyone. As important as the fact that they did is the reason why: Soviet leader Nikita Khrushchev's aide Fyodor Burlatsky said later on, "It is impossible to win a nuclear war, and both sides realized that, maybe for the first time." The record since then shows the same pattern repeating: nuclear-armed enemies slide toward war, then pull back, always for the same reasons. The best recent example is India and Pakistan, which fought three bloody wars after independence before acquiring their own nukes in 1998. Getting their hands on weapons of mass destruction didn't do anything to lessen their animosity. But it did dramatically mellow their behavior. Since acquiring atomic weapons, the two sides have never fought another war, despite severe provocations (like Pakistani-based terrorist attacks on India in 2001 and 2008). They have skirmished once. But during that flare-up, in Kashmir in 1999, both countries were careful to keep the fighting limited and to avoid threatening the other's vital interests. Sumit Ganguly, an Indiana University professor and coauthor of the forthcoming India, Pakistan, and the Bomb, has found that on both sides, officials' thinking was strikingly similar to that of the Russians and Americans in 1962. The prospect of war brought Delhi and Islamabad face to face with a nuclear holocaust, and leaders in each country did what they had to do to avoid it.

### AT: Western values

#### Russian economic prosperity does not promote western values

Guriev 8

(Sergei, December 6, Morgan Stanley Professor of Economics and a Rector at the New Economic School in Moscow, Centre for Economic and Financial Research at New Economic School, “Russian Attitudes Toward the West”, <http://www.econ.yale.edu/faculty1/tsyvinski/WP135.pdf>) CL

Second, there is no reason to believe that this negative sentiment will fade away as time goes by. The idea that Russians will automatically come closer to the Western values as Russia grows richer and experiences generational change does not seem to be consistent with the data. Young Russians dislike the West more than middle-age Russians. Even though every year of economic growth has brought more prosperity to Russia, Russians’ perceptions are only further departing from the Western ones over time. Although private enterprise delivers productivity growth and higher wages, public approval of markets is sinking not rising.

#### Russian economic prosperity does not promote western ideals

Guriev 8

(Sergei, December 6, Morgan Stanley Professor of Economics and a Rector at the New Economic School in Moscow, Centre for Economic and Financial Research at New Economic School, “Russian Attitudes Toward the West”, <http://www.econ.yale.edu/faculty1/tsyvinski/WP135.pdf>) CL

Multiple polls confirm that Russians are overwhelmingly negative towards the West, Western values and the Western socio-economic model. The data in this paper suggest that these attitudes are highly unlikely to change over time as Russia grows richer and the post-Soviet generation takes over. Richer Russians are only slightly more pro-Western than poorer ones, and the younger Russians are even less happy about the West and the Western model than the middle aged Russians. The fact that the better-off and the better-educated Russians have changed from liking the West (in late 1980s) to disliking it is not new for Russia. The waves of fascination and disillusionment with the Western ways have been following each other for centuries. Russia’s identity came into being when Russian czars started to see themselves as standard-bearers of the Orthodox world after the fall of Constantinople in the 15th century. The idea of Russia as a political and spiritual alternative to the West has been developing ever since. This messianic narrative could only be matched by an equally strong realization that Russia had to catch up with the West economically. An urgency to develop would prevail for a certain period but a messianic calling would time and again prove to be a deep-seated instinct. Interestingly, both Slavophiles and Westernizers, the two major opposing schools of thought in 19th-century Russia, agreed on that “In the West the soul is in decline... conscience is replaced by law, inner motives by regulations… The West has developed the rule of law because it felt a lack of truth in itself”, wrote Konstantin Aksakov, one of the leading Slavophiles. Leading Westernizer and dissident Alexander Herzen was looking for truth in the West but became disillusioned with democracy, calling it a “collective mediocrity”. This led him to believe that Russia should not repeat the West and follow its own way instead: “Should Russia follow all the stages of European development? No, I reject the need for repetition”. A messianic discourse of Russian national identity endured even as the Moscow Empire fell and a new state replaced it.21 The current wave of disillusionment with the West can potentially be explained by the coinciding policy reversals and the economic growth in the recent decade. In the last 10 years, Russia experienced both decline in personal and political freedoms and stellar economic growth. This may have convinced the Russian public that the Western-style democracy and market may function well in the West but are not suited for Russia. Russians do not seem to believe that Russia can build an effective democracy and developed markets. Whether the ongoing crisis will again bring the new tide of Westernization is yet to be seen.

#### Democracy doesn’t solve war – unstable transitions

Owens 5

(John M., November/December, associate professor of politics at the University of Virginia and author of “Liberal Peace, Liberal War.” , Foreign Affairs (“Iraq and the Democratic Peace.”) www.studyblue.com/notes/note/n/democratic-peace.../file/567210)

Their thesis, first published in 1995, is that although mature democracies do not fight one another, democratizing states -- those in transition from authoritarianism to democracy -- do, and are even more prone to war than authoritarian regimes. Now, in Electing to Fight, the authors have refined their argument. As they outline in the book, not only are "incomplete democratizing" states -- those that develop democratic institutions in the wrong order -- unlikely ever to complete the transition to democracy; they are also especially bellicose. According to Mansfield and Snyder, in countries that have recently started to hold free elections but that lack the proper mechanisms for accountability (institutions such as an independent judiciary, civilian control of the military, and protections for opposition parties and the press), politicians have incentives to pursue policies that make it more likely that their countries will start wars. In such places, politicians know they can mobilize support by demanding territory or other spoils from foreign countries and by nurturing grievances against outsiders. As a result, they push for extraordinarily belligerent policies. Even states that develop democratic institutions in the right order -- adopting the rule of law before holding elections -- are very aggressive in the early years of their transitions, although they are less so than the first group and more likely to eventually turn into full democracies. Of course, politicians in mature democracies are also often tempted to use nationalism and xenophobic rhetoric to buttress their domestic power. In such cases, however, they are usually restrained by institutionalized mechanisms of accountability. Knowing that if they lead the country into a military defeat or quagmire they may be punished at the next election, politicians in such states are less likely to advocate a risky war. In democratizing states, by contrast, politicians know that they are insulated from the impact of bad policies: if a war goes badly, for example, they can declare a state of emergency, suspend elections, censor the press, and so on. Politicians in such states also tend to fear their militaries, which often crave foreign enemies and will overthrow civilian governments that do not share their goals. Combined, these factors can make the temptation to attack another state irresistible.

### AT: Oil companies volatile

#### Russian oil companies resilient to price changes

ATON 11

(Equity Research Firm, May 23, Russian Oils Strangled By Taxes,

<http://www.scribd.com/doc/56502800/Russian-Oil-Equities>) CL

We believe the market has long come to the justifiable conclusion that the upstream business of Russian oil companies is more resilient to oil price changes than that of international or GEM operators. As shown in Figure 38, the upstream earnings of Russian companies have displayed a much lower sensitivity to changes in the oil price than those of peers in the last four years.

### AT: Russian economic decline

#### Russian economy resilient

Barings 11

(Jul 18, global investment management firm, Barings.com, Russian recovery continues to gather momentum, http://www.barings.com/smc/ProfessionalAdvisors/077568) CL

In terms of GDP growth Barings believes this will remain solid, although Russia's economic recovery has been slower to gain momentum compared to other emerging European nations. Siller says: "Russia's late cyclical recovery means that whilst consumer spending is only just starting to pick up, its monetary pressures are less strained than other European countries. Consumer spending, supported by a revival in retail loan growth since early 2010, points toward a strong, sustained recovery. Evidence of growth in consumption can be seen in rising new car sales which for example are well above Turkey's." Barings believes the Russian economy has been relatively resilient to the financial crisis, and currently its budget deficit forecasts are significantly better than some other European emerging economies. While other European governments' support of growth via deficit spending comes to an end, Russia is an exception to the trend. A deficit spending increase in Russia will continue to underpin wage growth and consumption. Barings also expects privatisation efforts to increase and generate more growth for businesses.

#### Global economy resilient

du Plessis 11

(Prieur, May 16th, one of the most experienced and well-known investment professionals in South Africa,

Investmentpostcards, Global economy – resilience, rebalancing and repression, <http://www.investmentpostcards.com/2011/05/16/resilience-rebalancing-and-repression/>) CL

The global economy is relatively resilient: Despite the oil price shock, initial conditions are favourable because household and corporate balance sheets have improved since the financial crisis. Balance sheet clean-up and repair in the private sector has partly come at the expense of the public sector balance sheet, but that’s another story. Personal savings rates have increased in former bubble economies like the US and the UK, and corporate profit margins have widened to record highs. This implies that the capacity of both households and companies to absorb shocks from higher oil and commodity prices has increased.

### AT: CBW/NBC

#### CBW don’t cause extinction

O'Neill 4

(Brendan, 19 August, editor of spiked, an independent online phenomenon dedicated to raising the horizons of humanity, Spiked, Weapons of Minimum Destruction,

<http://www.spiked-online.com/Articles/0000000CA694.htm>) CL

The term 'weapons of mass destruction' refers to three types of weapons: nuclear, chemical and biological. A chemical weapon is any weapon that uses a manufactured chemical, such as sarin, mustard gas or hydrogen cyanide, to kill or injure. A biological weapon uses bacteria or viruses, such as smallpox or anthrax, to cause destruction - inducing sickness and disease as a means of undermining enemy forces or inflicting civilian casualties. We find such weapons repulsive, because of the horrible way in which the victims convulse and die - but they appear to be less 'destructive' than conventional weapons. Chemical weapons have most commonly been used by states 'We know that nukes are massively destructive, there is a lot of evidence for that', says Rapoport. But when it comes to chemical and biological weapons, 'the evidence suggests that we should call them "weapons of minimum destruction", not mass destruction', he says. Chemical weapons have most commonly been used by states, in military warfare. Rapoport explored various state uses of chemicals over the past hundred years: both sides used them in the First World War; Italy deployed chemicals against the Ethiopians in the 1930s; the Japanese used chemicals against the Chinese in the 1930s and again in the Second World War; Egypt and Libya used them in the Yemen and Chad in the postwar period; most recently, Saddam Hussein's Iraq used chemical weapons, first in the war against Iran (1980-1988) and then against its own Kurdish population at the tail-end of the Iran-Iraq war. In each instance, says Rapoport, chemical weapons were used more in desperation than from a position of strength or a desire to cause mass destruction. 'The evidence is that states rarely use them even when they have them', he has written. 'Only when a military stalemate has developed, which belligerents who have become desperate want to break, are they used.' (5) As to whether such use of chemicals was effective, Rapoport says that at best it blunted an offensive - but this very rarely, if ever, translated into a decisive strategic shift in the war, because the original stalemate continued after the chemical weapons had been deployed. He points to the example of Iraq. The Baathists used chemicals against Iran when that nasty trench-fought war had reached yet another stalemate. As Efraim Karsh argues in his paper 'The Iran-Iraq War: A Military Analysis': 'Iraq employed [chemical weapons] only in vital segments of the front and only when it saw no other way to check Iranian offensives. Chemical weapons had a negligible impact on the war, limited to tactical rather than strategic [effects].' (6) According to Rapoport, this 'negligible' impact of chemical weapons on the direction of a war is reflected in the disparity between the numbers of casualties caused by chemicals and the numbers caused by conventional weapons. It is estimated that the use of gas in the Iran-Iraq war killed 5,000 - but the Iranian side suffered around 600,000 dead in total, meaning that gas killed less than one per cent. The deadliest use of gas occurred in the First World War but, as Rapoport points out, it still only accounted for five per cent of casualties. Studying the amount of gas used by both sides from 1914-1918 relative to the number of fatalities gas caused, Rapoport has written: 'It took a ton of gas in that war to achieve a single enemy fatality. Wind and sun regularly dissipated the lethality of the gases. Furthermore, those gassed were 10 to 12 times as likely to recover than those casualties produced by traditional weapons.' (7) Indeed, Rapoport discovered that some earlier documenters of the First World War had a vastly different assessment of chemical weapons than we have today - they considered the use of such weapons to be preferable to bombs and guns, because chemicals caused fewer fatalities. One wrote: 'Instead of being the most horrible form of warfare, it is the most humane, because it disables far more than it kills, ie, it has a low fatality ratio.' (8) 'Imagine that', says Rapoport, 'WMD being referred to as more humane'. He says that the contrast between such assessments and today's fears shows that actually looking at the evidence has benefits, allowing 'you to see things more rationally'. The Tamil Tigers’ use of chemicals angered some of their support base According to Rapoport, even Saddam's use of gas against the Kurds of Halabja in 1988 - the most recent use by a state of chemical weapons and the most commonly cited as evidence of the dangers of 'rogue states' getting their hands on WMD - does not show that unconventional weapons are more destructive than conventional ones. Of course the attack on Halabja was horrific, but he points out that the circumstances surrounding the assault remain unclear. 'The estimates of how many were killed vary greatly', he tells me. 'Some say 400, others say 5,000, others say more than 5,000. The fighter planes that attacked the civilians used conventional as well as unconventional weapons; I have seen no study which explores how many were killed by chemicals and how many were killed by firepower. We all find these attacks repulsive, but the death toll may actually have been greater if conventional bombs only were used. We know that conventional weapons can be more destructive.' Rapoport says that terrorist use of chemical and biological weapons is similar to state use - in that it is rare and, in terms of causing mass destruction, not very effective. He cites the work of journalist and author John Parachini, who says that over the past 25 years only four significant attempts by terrorists to use WMD have been recorded. The most effective WMD-attack by a non-state group, from a military perspective, was carried out by the Tamil Tigers of Sri Lanka in 1990. They used chlorine gas against Sri Lankan soldiers guarding a fort, injuring over 60 soldiers but killing none. The Tamil Tigers' use of chemicals angered their support base, when some of the chlorine drifted back into Tamil territory - confirming Rapoport's view that one problem with using unpredictable and unwieldy chemical and biological weapons over conventional weapons is that the cost can be as great 'to the attacker as to the attacked'. The Tigers have not used WMD since. The most infamous use of WMD by terrorists was in March 1995, when 10 members of Aum Shinryko, the strange Japanese religious cult, released sarin gas on the Tokyo Underground. The homemade gas was placed in plastic bags wrapped in newspapers. The cult members started the attack by puncturing the bags with umbrellas. Twelve people were killed; over 1,000 were hospitalised, 40 of whom were seriously injured. The Tokyo gas attack is seen as the most audacious use of WMD by terrorists to date; it is often namechecked as an example of what might happen if al-Qaeda types were to use WMD on the London Underground or on the New York Subway. Yet, as Rapoport points out, while the Aum Shinryko attack certainly had tragic consequences, it also showed up the limitations of WMD attacks in terms of causing casualties or destruction. He says that even though Aum Shinryko had 'extraordinary cover for a long time' - meaning that the Japanese authorities were nervous about monitoring the group on the grounds that it was a religious outfit - and despite the fact that it had '20 members with graduate degrees in science, significant laboratories and assets of over a billion dollars', it still did not succeed in its aim of taking hundreds or thousands of casualties, of causing mass destruction. For Rapoport this shows that such weapons are far from easy to use, especially when the groups using them must move around quickly, 'as all terrorists must do'. Much of the terror discussion is anticipatory and speculative According to Rapoport, the most striking thing about the Aum Shinryko attack is that no one died from inhaling the sarin gas itself - in every fatal case, the individual had made contact with the liquid. He cites Parachini again, who says that the individuals killed by Aum Shinryko are the only people to have lost their lives as a result of a WMD attack by a terrorist group over the past 25 years. (There were also five deaths as a result of anthrax attacks post-9/11, but Parachini doesn't include those because the individual responsible and the motivation for those attacks remain unknown.) 'When you think that fewer than 15 people have been killed by known terrorist use of chemical and biological weapons, and contrast that to the thousands who were killed on 9/11 and in conventional bombings in Madrid or Bali or Istanbul, it's quite remarkable that we are so obsessed with WMD', says Rapoport. So why are we so obsessed with WMD? Why do we continue to fret over weapons which, by all accounts, do not cause as much mass destruction as conventional weapons, which have only rarely been used by terrorists (and not very successfully at that), and which we're not even certain that today's terrorists, specifically al-Qaeda, have got access to? Rapoport says that's a good question - but a difficult one to answer. He thinks the reasons are complex; he argues that it isn't only government and media who have ratcheted up fear about WMD, but that 'economic interests' have, too - those in business, government and research institutions who stand to make financial gain from public concern about WMD and from public demands for more protective measures against such weapons. No doubt there is some truth in that. But the disparity between the facts about WMD and our fears of WMD also reveals something more about today's terror-obsession. It shows up the gap between the reality of terrorism - which over the past three years has largely consisted of scrappy bomb attacks by small nihilistic groups - and the fear of terrorism as something that might bring down civilisation as we know it, or, in the words of President Bush, inflict 'hundreds of thousands of casualties'. It suggests that our concern about terrorism is not entirely shaped by the real threat posed by terrorism, but by a broader sense of fear and insecurity at home. That might explain why so much of the terror discussion, particularly in relation to WMD, is anticipatory and speculative, always conjuring up worst-case scenarios - because it comes from within, from our own nightmares and imaginations, rather than from without. In this sense, chemical and biological weapons - the nightmare notion of silent, invisible killer poisons being released into our water systems or on to crowded public transport - are the perfect metaphor for the West's own sense of vulnerability. What we could really do with is a heavy dose of reality.

### A2 oil dependence

#### Russia’s dependence on high oil prices hurts their economy in the long run

Grinkevich, 12

(Vlad, RIA Novosti economic commentator, 1/27, RIA Novosti, “High Oil Prices Open “Window of Opportunity” for Russian Economy,” <http://en.rian.ru/analysis/20120127/170994608.html>, Accessed: 7/11/12, GJV)

IMF experts believe that high oil prices will allow the Russian government to take measures to strengthen, protect and reform the economy. Russia is benefiting from the rising tensions in the Middle East, which are driving up the price of a barrel of oil, but experts believe this geopolitical factor will soon subside. Moreover, expensive oil is slowing down Russia’s economic growth, and without economic reforms even expensive oil cannot guarantee economic stability.

#### Russian oil dependence is interlocked with their economy, any shifts from oil will fail

Gaddy, 11

(Clifford G., Senior fellow at the Brookings Institution, Washington, 6/16, Rianovisti, “Will the Russian economy rid itself of its dependence on oil?” <http://en.rian.ru/valdai_op/20110616/164645377.html>, Accessed: 7/5/12, GJV)

The problem is that it is precisely the oil wealth (the so-called oil rent) that is used to support and perpetuate the inefficient structure. For the sake of social and political stability, a large share of Russia’s oil and gas rents is distributed to the production enterprises that employ the inherited physical and human capital. The production and supply chains in that part of the economy are in effect “rent distribution chains.” A serious attempt to convert Russia’s economy into something resembling a modern Western economy would require dismantling this rent distribution system. This would be both highly destabilizing, and costly in terms of current welfare. Current efforts for “diversification” do not challenge the rent distribution system. On the contrary, the kinds of investment envisioned in those efforts will preserve and reinforce the rent distribution chains, and hence make Russia more dependent on oil rents. Even under optimal conditions for investment, any dream of creating a “non-oil” Russia that could perform as well as today’s commodity-based economy is unrealistic. The proportion of GDP that would have to be invested in non-oil sectors is impossibly high. Granted, some new firms, and even entire sectors, may grow on the outside of the oil and gas sectors and the rent distribution chains they support. But the development of the new sectors will be difficult, slow, and costly. Even if successful, the net value they generate will be too small relative to oil and gas to change the overall profile of the economy. Thus, while it is fashionable to talk of “diversification” of the Russian economy away from oil and gas, this is the least likely outcome for the country’s economic future. If Russia continues on the current course of pseudo-reform (which merely reinforces the old structures), oil and gas rents will remain important because they will be critical to support the inherently inefficient parts of the economy. On the other hand, if Russia were to somehow launch a genuine reform aimed at dismantling the old structures, the only realistic way to sustain success would be to focus on developing the commodity sectors. Russia could obtain higher growth if the oil and gas sectors were truly modern. Those sectors need to be opened to new entrants, with a level playing field for all participants. Most important, oil, gas, and other commodity companies need to be freed from the requirement to participate in the various informal schemes to share their rents with enterprises in the backward sectors inherited from the Soviet system.

#### **Oil dependence prevents Russian modernization**

Pirani 10

(Simon, Senior Research Fellow on the Natural Gas Research Programme at the Oxford Institute for Energy Studies, 5/10, Emerging Markets, “RUSSIAN ECONOMY: Russia’s oil problem,” <http://www.emergingmarkets.org/Article/2682714/Europe/RUSSIAN-ECONOMY-Russias-oil-problem.html>, Accessed: 7/7/12, GJV)

Russia has emerged from recession with rising domestic demand and sound finances, say the optimists, and oil wealth brought onshore will fund investment – including the kick-start to modernization that the government craves. The trouble is, say the sceptics, that the government’s plan to run a fiscal deficit up to 2015 could crowd out private investment, hold up infrastructure renewal and hobble growth. And with an oil price perhaps as high as $95 a barrel needed for Russia to break even, external factors could upset the whole applecart. There’s a consensus that Russia’s economy is recovering, albeit with difficulty, and will probably grow by 4–5% this year. But the scale of last year’s slump brought the category Brics (Brazil, Russia, India and China) into sharp relief, raising doubts over whether Russia deserved to be included: its GDP fell by 8%, while Brazil’s growth was flat and China’s (+8.7%) and India’s (+5.7%) roared on. The recession was a devastating reminder of Russia’s economic dependence on natural resources, mainly oil. And the differing interpretations of the recovery often rest on contrasting views about how easy it will be to escape that dependence. The enthusiasts focus on the fruit that government efforts to marshal oil funds to diversify the economy will bear. But the doubters worry that oil dependence will not be conquered without stronger policies to ensure sufficient private investment flows, properly targeted.

#### Modernization is key to Russian economy

Kliment, 10

(Alexander, analyst in Eurasia Group’s Europe and Eurasia practice, 10/29/10, Foreign Policy, “Can Russia make modernization work in the 21st century?” <http://eurasia.foreignpolicy.com/posts/2010/10/29/can_russia_make_modernization_work_in_the_21st_century>, Accessed: 7/7/12, GJV)

"Today Russia has a new agenda, one that incorporates sustainable development and the modernization of key economic sectors. I believe we stand a good chance of seeing these plans materialize." -Prime Minister Vladimir Putin, Oct. 5, 2010 "Modernization and the introduction of high technology is a key feature of our activity. I repeat that this is key." -Putin, Oct. 18, 2010 "The modernization of Russian democracy and establishment of a new economy will, in my opinion, only be possible if we use the intellectual resources of post-industrial societies. And we should do so without any complexes, openly and pragmatically." -President Dmitry Medvedev, in "Go, Russia!" Sept. 10, 2009 The idea of "modernization" is hardly new to Russian politics. From Peter the Great to Stalin to Putin, Russia's leaders have always been obsessed with "catching up" to a more modernized Europe. But over the past two years, the word has become a kind of magical catch-all term in the Russian political lexicon. The word is on the lips of just about every mayor, governor, minister and businessman in the country. A flurry of [high level](http://government.ru/gov/agencies/138/) governmental [commissions](http://archive.kremlin.ru/articles/216634.shtml) has been formed to address the issue. Moscow has even contracted a New York PR firm to gin up [a website](http://www.modernrussia.com/) that shows -- depending on your point of view -- how "modern" Russia is or how far the country has to go. The trouble with all this is that it's still very hard to understand what modernization really means for the people who use it and what it would actually take to "modernize" Russia. Most Russian officials agree that their economy is far too vulnerable to price fluctuations in international commodities markets and that Russia's industrial base is in sorry Soviet shape. Beyond that, however, agreement breaks down. Each of the country's various political and economic interest groups has its own conceptions of what the modernization of Russia means and how best to go about achieving it. And as with interest groups everywhere, the definitions are often self-serving.

#### **High oil prices prevent Russian economic diversification**

Moiseev, 12

(Alexey, head of macroeconomic analysis at VTB Capital, London, 7/6, Telegraph, “Modernisation is Russia’s cure for ‘Dutch disease’,” <http://www.telegraph.co.uk/sponsored/russianow/business/9382538/russia-dutch-disease.html>, Accessed: 7/8/12, GJV)

The conclusion that we can draw from this is that it is almost impossible to achieve effective and successful economic diversification away from oil or other commodities when their prices are high and when an economy is fully integrated into the global trade system. That is, it’s almost impossible to achieve this through purely administrative or similar measures. What can be done, and  has to be done, is to achieve non-price competitiveness through processes of modernisation. For these particular processes, high commodity prices can in fact be a very positive force as they produce the ample cash flows that are essential to finance such efforts. However, if the conditions are not right then the money earned by selling commodities at a time of high and rising prices will not be returned to Russia, and therefore cannot be used to contribute to the government’s modernisation and diversification agenda.

#### Diversification is key to Russia’s economy

Kopinski, 11

(Mark, Chief Investment Officer, International Equity, 1/19, American Century Investments Blog, “Russia’s Push for Economic Diversification and Modernization,” <http://americancenturyblog.com/2011/01/russia%E2%80%99s-push-for-economic-diversificationand-modernization/>, Accessed: 7/8/12, GJV)

About 25% of the government’s operating budget is linked to oil and gas revenues, so Russia’s goal of economic diversification will not be an easy task. Yet its leadership is becoming increasingly aware of the fact that it must endure some short-term pain—weaning itself off the windfalls from commodity exports—to ensure long-term economic growth and prosperity. In the meantime, however, Russia is trying to improve its investment climate by fostering better relations with the West, becoming more cognizant of property and intellectual rights, and reducing the state’s influence in the economy.

#### Turn - A transition from Russia’s oil dependency would benefit their economy

Bogatova, 12

(Margarita, correspondent at Mergermarket Financial Times group, 6/26, The Voice Of Russia, “O’Niel: Russia should be less dependent on oil prices,” <http://english.ruvr.ru/2012_06_26/79409411/>, Accessed: 7/5/12, GJV)

Russia should keep in mind that oil prices may go down and that only economic diversification can produce the results that would allay investor skepticism, Goldman Sachs Board Chairman Jim O’Neil, the author of the BRIC term, said in an interview this week. He spoke about the general state of the Russian economy and the effect of the recent opposition protests on Russia’s development. In O’Neil’s opinion, investors would like to see proof that the economy is really being diversified. He feels that the best proof would be the downsizing of government stakes in corporate mergers. Also, foreign investors want corporate decision-making to be more transparent. Alexander Aivazov, a co-founder of the Nord Capital investment group, thinks that the worrying prospect of a sharp dip in oil prices could drive Russia to focus more on branches other than energy, such as innovative activities, the consumer sector, pharmaceuticals and show business. He agrees that Russia needs a more transparent economy. "The Russian economy is almost completely closed to the public – there are only a handful of companies on the open market. Normal Western capital has virtually no access to small companies in Russia. If Russia perseveres in turning Moscow into a global financial center in Moscow, this will create conditions that will bring small companies into the open market, and that may lure small-scale Western investment companies that are keen to invest in retail business and other branches, and not just the fuel and energy sector or metal production." Russia, the world’s ninth economy, has improved its initial growth forecast and may post a 4%-5% year-on-year GDP increase in 2012. Contrary to expectations, the opposition protests of the past few months have not scared investors. Rather, they are perceived as evidence that the Russian democracy is on the right track, says Ivan Rodionov, a professor of the Higher School of Economics. "The protests have not affected the investment climate because no one understands what the opposition wants. But the fact that the opposition does exist is a positive factor perceived as progress in the right direction. Earlier, it was strange that everything was well in Russia, but there was no opposition. Now everything is still well and we also have the opposition. They cannot say what they want and they have no political platform, but that’s actually good."

#### Turn – Low oil prices ween Russia off oil dependence

RT.com 12

(6/22, In an interview with Jim O’ Neill, “Lower oil price ‘good for Russia’,” <http://rt.com/business/news/oil-price-russia-economy-497/>, Accessed: 7/7/12, GJV)

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](http://rt.com/business/news/putin-joins-calls-for-brics-getting-more-voting-rights-in-the-imf-385/) 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.”

#### **Russia’s oil dependence is impossible to change**

Gaddy, 11

(Clifford G., Senior fellow at the Brookings Institution, Washington, 6/16, Rianovisti, “Will the Russian economy rid itself of its dependence on oil?” <http://en.rian.ru/valdai_op/20110616/164645377.html>, Accessed: 7/5/12, GJV)

Certainly, there are issues with oil. It is a highly volatile source of wealth. But there are ways to hedge those risks. A bigger problem is that oil will eventually lose its special status as an energy source and therefore much of its value. But that time is far off. It will not happen suddenly. In the meantime, sensible policies can deal with the problems. Otherwise, the approach should be to generate the maximum value possible from the oil and protect that value through prudent fiscal policies. Russia should not, can not, and will not significantly reduce the role of oil and gas in its economy in the foreseeable future. It will only harm itself by ill-advised and futile efforts to try.