# Oil - Expanded MGW 2012

Look for two other files:

1. Links (various affs increase/decrease consumption)

2. More backstopping links (we’re thin here, but I think the file is incomplete without two or three more)

Things you should know:

1. My thinking is that you have to win a backstopping argument in order to get a link of sufficient magnitude to cause impacts. The reason is that even with its recent decline, oil is still at a historically high level. In addition, most affs have pretty long time frame solvency arguments for oil consumption. The result is that you need to win a perception-based link or impact arg. Since most impacts are income related, the link’s where you should do your debating.

2. THE MOST IMPORTANT ARGUMENT (imho) is the yes/no excess capacity debate. In order for backstopping to be possible, OPEC/Saudia Arabia need to have spare oil to pump. Similarly, “no spare capacity” is the best link answer the aff has (and the cards are *really, really* good on this arg).

3. I would read the warming/alternative shift impacts. They’re big, solve most affs well, and are the best chance you have at getting past a big nuclear war on the aff. If you need a kicker, read Russia in the block. Russia has some uniqueness problems, given that their budget depends on $100+ oil and I would *guess* that oil’s going to hover around 90 for the time being, especially with the string of bad econ news that’s likely this week.

[Oil - Expanded MGW 2012 1](#_Toc329457989)

[Top Level Stuff 4](#_Toc329457990)

[Prices Up 5](#_Toc329457991)

[Prices Up 6](#_Toc329457992)

[Demand Up 7](#_Toc329457993)

[Prices NOT Down 9](#_Toc329457994)

[Prices Down 10](#_Toc329457995)

[Demand Stable/Low 11](#_Toc329457996)

[AT: Depedency 12](#_Toc329457997)

[Dependecy Down 13](#_Toc329457998)

[Yes Spare Capacity 14](#_Toc329457999)

[Yes Spare Capacity – Saudi Arabia 15](#_Toc329458000)

[No Spare Capacity 17](#_Toc329458001)

[No Spare Capacity – Globally 18](#_Toc329458002)

[No Spare Capacity – OPEC 19](#_Toc329458003)

[No Spare Capacity – Saudi Arabia 20](#_Toc329458004)

[Backstopping 21](#_Toc329458005)

[Backstopping 1NC 22](#_Toc329458006)

[Backstopping 1NC 23](#_Toc329458007)

[Internals/Boosters 25](#_Toc329458008)

[Yes Flood 26](#_Toc329458009)

[Perception IL 27](#_Toc329458010)

[Impacts 28](#_Toc329458011)

[Turns Case 29](#_Toc329458012)

[Turns Case – Speculation Spikes 30](#_Toc329458013)

[Renewable Shift 31](#_Toc329458014)

[Alt Energy/Warming Impacts – 1NC 32](#_Toc329458015)

[High Prices = Renewable Shift 34](#_Toc329458016)

[High Prices => Shift 35](#_Toc329458017)

[Low Prices => Warming 37](#_Toc329458018)

[Alt Energy/Warming Impact - Ext 38](#_Toc329458019)

[Russia DA (High Prices Good) 39](#_Toc329458020)

[Russia 1NC 40](#_Toc329458021)

[Russia 1NC 41](#_Toc329458022)

[Uniqueness 43](#_Toc329458023)

[AT: “Oil Prices Down Now” 44](#_Toc329458024)

[AT: “Overheat Now” 45](#_Toc329458025)

[Links 46](#_Toc329458026)

[Low Prices Hurt Economy 47](#_Toc329458027)

[Demand Decreases Kill Economy 50](#_Toc329458028)

[Price Declines Cause Social Unrest 51](#_Toc329458029)

[Supply Increases 52](#_Toc329458030)

[Impacts 53](#_Toc329458031)

[Outweighs (Bostrum) 54](#_Toc329458032)

[Nuclear War 55](#_Toc329458033)

[Accidental Launch 56](#_Toc329458034)

[AT: Stuff 58](#_Toc329458035)

[AT: Dutch Disease 59](#_Toc329458036)

[Aff Stuff and Answers 60](#_Toc329458037)

[Backstopping 61](#_Toc329458038)

[No Link 62](#_Toc329458039)

[Russia 64](#_Toc329458040)

[Not Unique 65](#_Toc329458041)

# Top Level Stuff

## Prices Up

### Prices Up

#### Even with economic slowdown and recent decreases, prices will still be up this year – capacity isn’t high enough

EIA 6/10 (Energy Information Administration, it’s the US govt agency that does all of the oil projections, they’re kind of a big deal…, 6/10/2012 “SHORT-TERM ENERGY OUTLOOK,” <http://205.254.135.7/forecasts/steo/report/global_oil.cfm>)

Global oil markets have loosened in recent months, as world oil production outpaced consumption by 0.7 million bbl/d in the first quarter of 2012, and is forecast to exceed it by 1.2 million bbl/d in the second quarter. The oil production gains contributed to a counter-seasonal stock build during the first quarter of 2012, following the significant stock draws during 2011. Industry analysts have attributed some of the recent decline in oil prices to poor economic indicators for Europe, China, and the United States, in addition to reduced market anxiety over current and potential supply disruptions. Although EIA’s economic growth assumptions are unchanged from last month, the crude oil price forecast has been lowered because of upward revisions to current and forecasted supply, primarily from countries outside of the Organization of the Petroleum Exporting Countries (OPEC), and to reflect changes in the relative strength of the upside and downside risks buffeting oil markets. Despite the recent fall in crude oil prices, EIA expects that the average crude oil price in 2012 will be higher than in 2011. EIA expects the world oil market will tighten moderately in the third quarter of 2012 as world demand reaches its seasonal peak and total consumption exceeds production by about 0.7 million bbl/d. Additionally, spare production capacity levels are projected to be low enough to support a recovery in crude oil prices from current levels.

#### Best and most recent projections prove that recent price declines have only slowed overall price growth – 2012 prices will still be high and hold through 2013

EIA 6/10 (Energy Information Administration, it’s the US govt agency that does all of the oil projections, they’re kind of a big deal…, 6/10/2012 “SHORT-TERM ENERGY OUTLOOK,” <http://205.254.135.7/forecasts/steo/report/global_oil.cfm>)

EIA has lowered the forecast 2012 average U.S. refiner acquisition cost of crude oil by almost $8 per barrel from last month’s Outlook to $102 per barrel, the same as the 2011 average price. EIA expects the price of WTI crude oil to average about $97 per barrel in 2012, about $7 per barrel lower than last month’s Outlook, but $2 per barrel higher than the 2011 average price. EIA expects crude oil prices to remain relatively flat in 2013, with WTI and the U.S. refiner acquisition cost of crude oil averaging about $97 per barrel and $102 per barrel, respectively (West Texas Intermediate Crude Oil Price Chart).

### Demand Up

#### Prices and demand for oil are rising, but controlled – optimism about European debt and recovery

CBS Money Watch 7/4/12 “Oil prices retreat as Iran tensions simmer” http://www.cbsnews.com/8301-505123\_162-57466341/oil-prices-retreat-as-iran-tensions-simmer/

The latest U.S. supply data suggest demand may be improving. The American Petroleum Institute said late Tuesday that crude inventories fell 3 million barrels last week while analysts surveyed by Platts, the energy information arm of McGraw-Hill Cos., had predicted a drop of 2 million barrels. Inventories of gasoline fell 1.4 million barrels last week, the API said. The Energy Department's Energy Information Administration reports its weekly supply data Thursday. Trading volume was light because markets in the U.S. were open for only a half-day Tuesday and will be closed Wednesday for the Independence Day holiday. Crude has jumped from $77 last week amid optimism that European leaders are making progress toward stabilizing the region's debt and economic crisis. Investors have brushed off recent signs that the global economy is slowing and fueled a rally in stocks and commodities so far this week. "While markets have reacted favorably to the news following the EU leaders summit, a definitive resolution to the problems in Europe is still a long way off," National Australia Bank said in a report. "The global growth outlook has started to look a little shakier following a recent run of sluggish economic indicators."

#### Iranian saber rattling and expectations of monetary stimulus are keeping prices high

Bloomberg Businessweek 7/3/12 “Oil prices at highest since May on Iran concerns” http://www.businessweek.com/ap/2012-07-03/oil-prices-hit-highest-level-since-may

Renewed tensions between Iran and the West pushed oil its highest level in more than a month. Iran is again threatening to block a critical Persian Gulf shipping route in response to a European embargo of Iranian oil. Iran has sparred for months with the West over its nuclear program. Benchmark U.S. crude added $3.91, or 4.7 percent, to end at $87.66 per barrel in New York. That's the highest price since May 30. Brent crude, which sets the price of oil imported into the United States, rose above $100 for the first time in three weeks. Brent added $3.34, or 3.4 percent, to finish at $100.68 per barrel in London. Combined with a big gain on Friday, oil has risen by nearly $10 per barrel in less than a week. That's bringing an end to a prolonged drop in pump prices. The national average for gas rose slightly Tuesday to $3.30 per gallon, the first increase in more than two months. An increase in U.S. factory orders from April to May also supported oil prices on Tuesday. And analysts are betting that Europe, China and the U.S. will take steps to stimulate their economies, which would boost oil demand. But the main driver was Iran. More than a third of the world's seaborne oil is shipped out of the Persian Gulf, so any move by Iran to shut the vital Strait of Hormuz raises the risk of a confrontation and the disruption of tanker traffic. Iran has threatened to block the waterway since late last year when Western nations imposed financial sanctions and the European Union first proposed an oil embargo.

#### Oil prices are largely stable – recent retreats are just profit taking and pessimism – major new declines are unlikely

Economic Times (India), 7/4/12 “Oil prices retreat after sharp gains” <http://economictimes.indiatimes.com/markets/commodities/oil-prices-retreat-after-sharp-gains/articleshow/14671045.cms>

Crude oil prices fell back on Wednesday as investors' focus reverted to the grim economic backdrop and as they took profits after the sharp gains in previous sessions. Trading was expected to be limited with U.S. markets closed for the Independence Day holiday, and meetings of European Central Bank and the Bank of England policy makers on Thursday. Brent crude oil was $1.29 lower at $99.39 per barrel by 0819 GMT, after jumping more than 3 percent in the previous session on short-covering before the U.S. Independence Day holiday on Wednesday. U.S. crude fell 99 cents to $86.67 after settling on Tuesday at its highest close since May 30. "After a strong rally yesterday, with the U.S. liquidity out of the market, the market is moving to a level that is easier to defend," said Filip Petersson, analyst at SEB in Stockholm.

### Prices NOT Down

#### Price declines are only short term – cost of production is simply too high and production will be cut to sustain price levels

Sen 6/28 Amrita Sen, Senior Oil Analyst with Barclay’s, “Fourth quarter could see oil prices inching up: Amrita Sen Interview with Oil analyst, Barclays, London, “ 6/28/12 http://www.business-standard.com/india/news/fourth-quarter-could-see-oil-prices-inching-up-amrita-sen-/478698/

There seems to be a belief that oil will crash to $40 or so, but I believe that policy will not allow oil to go to those levels. It is becoming expensive to produce oil and prices will reflect that. The bare minimum cost of production that oil companies are talking about is $75/bbl. A lot of companies are planning oil at $109/bbl. So also the fall in price will be much more measured this time. In the medium term, the world should get used to oil at $100-120 levels. Alternative sources of oil too, are not cheap. If prices continue to fall, they may cut production.

## Prices Down

### Demand Stable/Low

#### Demand will stay low – weak economic data and slowdowns will keep prices in check

Reuters 7/4/12 “UPDATE 8-Oil slides below $100, focus on grim economy” http://in.reuters.com/article/2012/07/04/markets-oil-idINL3E8I413920120704

Benchmark oil prices fell back below $100 a barrel on Wednesday, after a sharp gain the previous day, as new evidence of grim economic conditions in Europe offset expectations of fresh stimulus measures. One day after surging more than 3 percent amid one of the biggest commodity-sector rallies ever, August Brent crude fell 91 cents to settle at $99.77 a barrel. NYMEX crude dipped 60 cents to $87.06 a barrel by 1745 GMT, with volumes thinned by the U.S. Independence Day holiday. Investors have flooded back into raw materials at the start of the third quarter, betting that beaten-down markets such as oil, copper and gold may fare better if central banks step up efforts to stoke the world economy. The European Central Bank is expected to cut its main refinancing rate to a record low below 1 percent at its policy meeting on Thursday. "After a strong rally yesterday, with the U.S. liquidity out of the market, the market is moving to a level that is easier to defend," Filip Petersson, an analyst at SEB in Stockholm, said. "I expect it to be a bit bearish, but a 1 percent fall after several days with several percent rises is not a big move." Brent has rallied nearly 12 percent since hitting its lowest price since 2010 two weeks ago, aided in part by rising tension over Iran's nuclear programme and the implementation of tough new European and U.S. sanctions. Data releases from across the globe continue to add weight to the view that the world economy is slowing. A survey of private Chinese service-sector firms showed their activity growing at the slowest rate in 10 months in June, while another survey revealed that Germany's services sector unexpectedly stagnated last month, ending an eight-month period of expansion. Investors are hoping for quantitative easing (QE) from the U.S. Federal Reserve, which could become more likely if there is weak nonfarm payrolls data on Friday. "If the data at the end of the week disappoint, it could increase the likelihood of QE, which would weaken the dollar and support growth," Gareth Lewis-Davies at BNP Paribas said. Iran has threatened to destroy U.S. military bases across the Middle East and target Israel within minutes of being attacked, Iranian media reported on Wednesday, as Revolutionary Guards extended test-firing of ballistic missiles into a third day. DEMAND OUTLOOK While the weak data was seen as a potential factor that could prompt stimulus policies, it was also seen as limiting the prospects for demand growth for commodities such as oil. Deutsche Bank and Societe Generale have lowered their 2013 Brent price outlooks on expectations of weak demand due to the gloomy economic climate.

#### Demand increases aren’t likely – monetary stimulus and slow recovery

Economic Times (India), 7/4/12 “Oil prices retreat after sharp gains” <http://economictimes.indiatimes.com/markets/commodities/oil-prices-retreat-after-sharp-gains/articleshow/14671045.cms>

Risk assets such as commodities and stocks have also been supported by hopes for more monetary stimulus to boost slowing economic growth. China's services firms grew at their slowest rate in 10 months in June, easing back from May's 19-month peak, bolstering expectations that Beijing will deliver further measures to drive growth. The European Central Bank is expected to cut its main refinancing rate to a record low below 1 percent at its policy meeting on Thursday. Investors are also hoping for action from the U.S. Federal Reserve. However, the weak data was also seen as limiting the prospects for demand growth for commodities like oil. Deutsche Bank and Societe Generale have lowered their 2013 Brent price outlooks on expectations of weak demand due to the gloomy economic climate.

## AT: Depedency

### Dependecy Down

#### US oil imports are decreasing and US oil reserves are growing at a faster rate than other countries

Maugeri 12 (Leonardo Maugeri, Research Fellow of the Geopolitics of Energy Project at the Harvard Kennedy School's Belfer Center for Science and International Affairs, Oil: The Next Revolution: The Unprecedented Upsurge of Oil Production Capacity and What It Means for the World, Discussion Paper #2012-10, Geopolitics of Energy Project, Belfer Center for Science and International Affairs, John F. Kennedy School of Government, Harvard University, June 2012 <http://belfercenter.ksg.harvard.edu/files/Oil%20-%20The%20Next%20Revolution.pdf>)

The most surprising factor of the global picture, however, is the explosion of the U.S. oil output. Thanks to the technological revolution brought about by the combined use of horizontal drilling and hydraulic fracturing, the U.S. is now exploiting its huge and virtually untouched shale and tight oil fields, whose production – although still in its infancy – is already skyrocketing in North Dakota and Texas. The U.S. shale/tight oil could be a paradigm-shifter for the oil world, because it could alter its features by allowing not only for the development of the world’s still virgin shale/tight oil formations, but also for recovering more oil from conventional, established oilfields – whose average recovery rate is currently no higher than 35 percent. The natural endowment of the initial American shale play, Bakken/Three Forks (a tight oil formation) in North Dakota and Montana, could become a big Persian Gulf producing country within the United States. But the country has more than twenty big shale oil formations, especially the Eagle Ford Shale, where the recent boom is revealing a hydrocarbon endowment comparable to that of the Bakken Shale. Most of U.S. shale and tight oil are profitable at a price of oil (WTI) ranging from $50 to $65 per barrel, thus making them sufficiently resilient to a significant downturn of oil prices. The combined additional, unrestricted liquid production from the aggregate shale/tight oil formations examined in this paper could reach 6.6 mbd by 2020, in addition to another 1 mbd of new conventional production. However, there remain obstacles that could significantly reduce the U.S. shale output: among them, the inadequate U.S. oil transportation system, the country’s refining structure, the amount of associated natural gas produced with shale oil, and environmental doubts about hydraulic fracturing, one of the key technologies for extracting oil from shale. After considering risk factors and the depletion of currently producing oilfields, the U.S. could see its production capacity increase by 3.5 mbd. Thus, the U.S. could produce 11.6 mbd of crude oil and NGLs by 2020, making the country the second largest oil producer in the world after Saudi Arabia. Adding biofuels to this figure, the overall U.S. liquid capacity could exceed 13 mbd, representing about 65 percent of its current consumption.

## Yes Spare Capacity

### Yes Spare Capacity – Saudi Arabia

#### Saudi Arabia has spare capacity and isn’t afraid to lower prices at the expense of Russia

Reuters 6/25/12 “Saudi Arabia keeps oil tap on for world growth, Russia hurts” http://in.reuters.com/article/2012/06/25/saudi-oil-idINL5E8HJGHB20120625

 Saudi Arabia is showing no sign of changing its policy of high oil output to support global economic growth, despite a fall in crude prices below $90 a barrel for the first time in 18 months. Gulf and Western government sources in contact with Saudi officials said the OPEC power can tolerate oil at $90 or below for months, price levels that hurt Iran and Russia as they face off against Riyadh over the conflict in Syria. Saudi Arabia has a built up a revenue surplus in the first half of the year and requires a much lower oil price to balance its budget than most of its fellow OPEC members and leading non-OPEC producer Russia. "If we keep producing at roughly the same rate, we're not flooding the market," said a senior oil official from a Gulf producer. "And we want to act responsibly for the sake of the world economy." Strong supporters of fellow Sunni Syrian rebels seeking to oust Syrian President Bashar al-Assad, Saudi leaders have criticised Russia for defending him. With Iran, Russia is Syria's main ally, providing most of its arms. Both Moscow and Tehran need crude at $115 a barrel to meet budget requirements. "Russia's economy is vulnerable to a sharp drop in oil prices," said U.S. oil analyst Phil Verleger. "The Saudis may be able to exploit that vulnerability by keeping production at 10 million barrels per day." Industry sources say Saudi Arabia, the only oil producer with significant spare capacity, looks set to trim output over the next two months, but only because demand from refineries in China and the United States will dip. "We're told the Saudis are OK with lower prices, $90 or below, for a few months," said a Western diplomat. "Even if they have to trim back because of lower demand they don't give us the impression they'll be bailing out OPEC on price any time soon," he said.

#### Saudi Arabia has significant spare capacity in the status quo – they’re the only country capable of the manipulation of global prices

Ergo Research 12 (Market Research and Intelligence Service, “The Waning Era of Saudi Oil Dominance,” Feb 12, <http://www.ergo.net/ErgoSpecialReport_Saudi_Oil_Feb2012.pdf>)

Saudi Arabia’s importance to global oil markets is due not solely to its immense reserves and production, but also its spare production capacity, which far surpasses that of any other country. Oil producers with spare capacity can ramp up production to calm turbulent markets and prices in response to a crisis—Saudi Arabia did so during the high market uncertainty in the period immediately after the September 11, 2001 terrorist attacks in the US, and again during the 2011 Libyan unrest. However, spare capacity can also be wielded as a tool to undermine other market participants. Between 1979 and 1980, Saudi Arabia warned other OPEC members that high oil prices would eventually curb demand. It enforced its view in 1981 by flooding the market, bringing down prices and slowing upstream expansion programs in countries that had sought high oil prices. At present OPEC spare capacity is approximately 3 mbpd. Saudi Arabia represents approximately 98% of this amount, making it the only country that can effectively and strategically make use of spare capacity. Spare capacity also provides a proxy for price movements in oil. Recent history reveals a close correlation between spare capacity and the price of oil: when spare capacity dwindles, the risk of a supply disruption grows and prices rise. Two of the sharpest periods of oil price inflation—2003 to 2005 and 2007 to 2008—coincided with OPEC’s spare capacity falling to historic lows. Armed with immense reserves and production capability, Saudi Arabia has historically played the role of the world’s swing producer, helping to mitigate shocks to the oil market.

#### There’s plenty of spare Saudi to flood the market

LeVine and Bayroff 6/15 (Steve and Logan, “The Weekly Wrap -- June 15, 2012” Foreign Policy, <http://oilandglory.foreignpolicy.com/posts/2012/06/14/the_weekly_wrap_june_15_2012>)

Oil king Venezuela? Is Saudi Arabia's mere possession of much oil the central reason it is the most pivotal energy player on the planet? Observed through the prism of Venezuela, the answer is no. BP's 2012 Statistical Review of World Energy, the bible of the energy industry, was released this week, and makes official something that OPEC asserted months ago -- Venezuela has surpassed Saudi, and become the world's largest reserve of oil. With 296 billion barrels, Venezuela has 18 percent of the oil on the planet; Saudi Arabia, with 265 billion barrels, has 16 percent (Canada's 175 billion barrels make it third, with 11 percent of the global total). Yet, oil is one sphere where possession is not nine-tenths of the law. Saudi Arabia remains king because of what it does and, more important, can do with its oil. For starters, the Saudis are the world's biggest oil exporters (10.1 million barrels a day in April); Venezuela exported 2.1 million barrels of oil a day, the seventh in rank, according to OPEC. But the more salient factor is Saudi's residual capability -- it is the sole country able to add meaningful daily volumes to global production in a pinch; Venezuela's spare production capacity is effectively zero. And that factor -- spare capacity -- is pivotal in the stability, or lack of, in global energy. When the world knows that there is oil to be had regardless of what calamity ensues, it can go and worry about other matters. Conversely, when spare oil production capacity becomes razor-thin, the world fixates on petroleum; prices go through the roof. Conclusion: Little sleep was lost this week in the kingly palaces of Saudi Arabia.

## No Spare Capacity

### No Spare Capacity – Globally

#### Even with recent increases, spare capacity is still extremely tight

Reuters, 6/26/12, “World oil supply up but spare capacity tight – EIA”, <http://news.yahoo.com/world-oil-supply-spare-capacity-tight-eia-172244001--finance.html>

World oil inventories have risen over the past two months, aided by increased output from Iraq and Libya, but spare production capacity remains tight, the U.S. government said on Tuesday. Global fuels output exceeded consumption by an average of 1 million barrels per day in May and June, helping to push oil inventories higher and prices lower, the Energy Information Administration said in a report, obtained by Reuters ahead of its publication. The EIA report is required every 60 days under the Iran sanctions law signed by President Barack Obama late last year that called for restricting Iran's ability to sell its crude oil on world markets. The EIA estimated that world spare production capacity grew in the last two months to 2.4 million bpd, up from 2.1 million bpd in the previous two months. The EIA warned, however, that spare world oil capacity was less than 3 percent of total world consumption, making it a factor as U.S. imposes sanctions and the European Union embargoes Iranian oil shipments from July 1. "Spare capacity in May and June is still quite modest by historical standards, especially when measured as a percentage of global oil production and consumption," the EIA said. With only a thin spare oil supply cushion, unforeseen oil production outages, such as major damage to oil platforms from hurricanes in the Gulf of Mexico or an upsurge of violence in producers such as Nigeria can quickly boost oil prices.

#### Spare capacity is extremely tight

EIA 6/26 (Energy Information Administration, it’s the US govt agency that does all of the oil projections, they’re kind of a big deal…, 6/10/2012 “The Availability and Price of Petroleum and Petroleum Products Produced in Countries Other Than Iran,” http://205.254.135.7/analysis/requests/ndaa/)

Currently, all of the world's spare crude oil production capacity is held by the member countries of the Organization of the Petroleum Exporting Countries (OPEC), and largely by Saudi Arabia. EIA estimates that spare OPEC oil production capacity averaged 2.4 million bbl/d during May and June. Spare oil production capacity is currently quite modest relative to historical levels, including an average of 3.1 million bbl/d in the comparable year-ago period and a 2009-2011 average of 3.4 million bbl/d. Spare capacity must also be considered in the context of current geopolitical uncertainties, including, but not limited to, the situation in Iran. For example, if Iran is forced to shut in production because difficulties with marketing its oil outstrip available oil storage capacity, then that shut-in capacity may be technically counted as new spare capacity. However, that hypothetical spare capacity would not be readily available to alleviate market tightness in the same manner as regular spare capacity not forced by sanctions.

### No Spare Capacity – OPEC

#### OPEC spare capacity is at an all-time low, particularly in Saudi Arabia – they’re pumping at a record high now

Chazan 3/14 (Guy Chazan, “IEA warns of falling spare oil capacity,” Finaical Times, 3/14/12, <http://www.ft.com/cms/s/0/14b2afec-6db0-11e1-b9c7-00144feab49a.html#axzz1zokElrF0>)

World oil markets face a “bumpy ride” in the months ahead, amid falling global crude supplies and tightening western inventories, the International Energy Agency [IEA] said. In its closely watched monthly oil market report, the IEA said that a series of unscheduled supply outages from Syria to the UK had reached 750,000 barrels a day. The outages, combined with concerns about Iran, have helped to push crude prices up 20 per cent since December. In recent weeks, prices have posted record highs in euro-denominated terms, surpassing the peak reached during the 2008 price spike. That has created a headache for western leaders, especially in the US where high petrol prices could jeopardise the fragile economic recovery and undermine President Barack Obama’s re-election hopes. As a result of the supply disruptions, the IEA, which advises the industrialised countries on energy policy, downgraded its full-year forecast for non-Opec production growth to 730,000 b/d from 900,000 b/d. As recently as last December, it was predicting non-Opec supply growth of 1 million b/d. The agency stressed it expected non-Opec production to recover as 2012 progresses. The disruptions to supply in places like South Sudan, Yemen, Syria and the UK North Sea come at a time when Opec has ramped up production, with Saudi Arabia pumping at a three-decade peak and Libyan output quickly recovering to prewar levels. The IEA said Opec production stood at 31.42m b/d in February, the highest level since mid-2008. That has led to a decline in Opec’s spare capacity – the cushion of supply its big producers, especially Saudi Arabia, keep in reserve. The IEA said Opec spare capacity is now below 3m b/d for the first time since 2008 – a year when oil prices spiked to their all-time high of $147 a barrel. The combination of low Opec spare capacity, constrained non-Opec supply and tightening western oil inventories – which are below their five-year average for a seventh consecutive month – means oil markets are in for a “bumpy ride in the months ahead,” the IEA said. “There is a buffer in the system, but it’s not as big as we’d like given the geopolitical uncertainties in the market,” said David Fyfe, head of the IEA’s oil markets division.

#### There’s no spare capacity that could be brought online any time soon – they would be pumping it now if they could

Mearns 11 (Euan Mearns, Honorary Research Fellow at the University of Aberdeen, B.Sc. and Ph.D. degrees in geology from The University of Aberdeen, “OPEC spare capacity, rig count and the big picture,” 6/29/11 <http://www.theoildrum.com/node/8077>)

There has been much speculation on these blog pages about the existence of OPEC spare capacity. The oil rig count for Saudi Arabia, Kuwait, Abu Dhabi and Qatar (SKAQ) provides some clues. The sharp rise in operational oil rigs in February 2011 suggests to us that usable spare capacity does not exist and that new useful capacity (light sweet?) must be built by drilling new wells. This takes time. It also suggests that there is goodwill among these OPEC members to try and boost supply to tame oil prices. OPEC spare capacity The chart of OPEC spare capacity shows spare capacity running at around 4.5 mmbpd. It seems quite clear that if SKAQ could simply turn on taps to produce more usable oil then they would not be scrambling rigs right now. If the spare capacity does in fact exist, then it must be of sour and heavy grades of crude that cannot substitute for the loss of 1.6 mmbpd light sweet crude from Libya.

### No Spare Capacity – Saudi Arabia

#### Saudi spare capacity is over-rated – they’re pumping too much now and marginal increases are difficult, even if possible

Reuters 6/13/12, “Saudi oil spare capacity shrinking fast,” <http://www.reuters.com/article/2011/06/13/us-energy-summit-capacity-idUSTRE75C4B320110613>

Saudi Arabia's cushion of spare oil capacity is thinning far faster than widely believed, threatening to trigger price spikes in the months ahead, energy industry experts warned at the Reuters Global Energy and Climate Summit on Monday. Concerns are growing over the kingdom's ability to pump more oil beyond an anticipated summer boost, leaving the world exposed to any further unexpected disruptions. The world's top exporter promised to produce as much oil as the market needs after the Organization of the Petroleum Exporting Countries last week failed to reach a deal. Saudi newspaper al-Hayat reported Saudi Arabia would boost output to 10 million barrels per day (bpd) in July, which Goldman Sachs' global head of commodities research Jeff Currie said would leave only 500,000 bpd spare. Currie and his team have warned for months about overstated Saudi output capacity. "If you get up to (10 mln bpd), you start to really create a very tight market relative to spare capacity," he told the Reuters Global Energy and Climate Summit in London. "But the question that's more appropriate is when do you get to 9.5, when do you get to 10? Because when you start to look out over the horizon, their ability to create more flexibility in spare capacity increases tremendously."

# Backstopping

## Backstopping 1NC

### Backstopping 1NC

#### Shift away from oil dependence causes Saudi Arabia to flood the market to tank oil prices

Morse and Richard ‘2 (Edward and James, Executive adviser at Hess energy trading company, former deputy assistant secretary of state for international energy policy and portfolio manager at Firebird Management, an investment fund active in eastern Europe, Russia, and Central Asia. “The battle for energy dominance”, foreign affairs 81.2, AM)

A simple fact explains this conclusion: 63 percent of the world's proven oil reserves are in the Middle East, 25 percent (or 261 billion barrels) in Saudi Arabia alone. As the largest single resource holder, Saudi Arabia has a unique petroleum policy that is designed to maximize the benefit of holding so much of the world's oil supply. Saudi Arabia's goal is to assure that oil's role in the international economy is maintained as long as possible. Hence Saudi policy has always denounced efforts by industrialized countries to wean themselves from oil dependence, whether through tax policy or regulation. Saudi strategy focuses on three different political arenas. The first involves the ties between the Saudi kingdom and other OPEC countries. The second concerns Riyadh's relationship with the non- OPEC producers: Mexico, Norway, and now Russia. Finally, there is Saudi Arabia's link to the major oil-importing regions -- most importantly North America, but also Europe and Asia. Given the size of the Saudi oil sector, the kingdom has a unique and critical role in setting world oil prices. Since its overriding objectives are maximizing revenues generated from oil exports and extending the life of its petroleum reserves, Riyadh aims to keep prices high as long as possible. But the price cannot be so high that it stifles demand or encourages other competitive sources of supply. Nor can it be so low that the kingdom cannot achieve minimum revenue targets. The critical balancing act of Saudi foreign policy, therefore, is to maintain oil prices within a reasonable price band. Stopping oil prices from falling below the minimum level requires cooperation from other OPEC countries and occasionally from non-OPEC producers. Preventing oil prices from rising too high requires keeping enough spare production capacity to use in an emergency. This latter feature is the signal characteristic of Saudi policy. The kingdom can afford to maintain this spare capacity because of the abundance of its oil reserves and the comparatively low cost of developing and producing its reserve base. In today's soft market, in which Saudi Arabia produces around 7.4 mbd, the kingdom has close to 3 mbd of spare capacity. Its spare capacity is usually ample enough to entirely displace the production of another large oil-exporting country if supply is disrupted or a producer tries to reduce output to increase prices. Not only does this spare capacity help the kingdom keep prices in check, but it also serves to link Riyadh with the United States and other key oil-importing countries. It is a blunt instrument that makes policymakers elsewhere beholden to Riyadh for energy security. This spare capacity is greater than the total exports of all other oil-exporting countries -- except Russia. Saudi spare capacity is the energy equivalent of nuclear weapons, a powerful deterrent against those who try to challenge Saudi leadership and Saudi goals. It is also the centerpiece of the U.S.- Saudi relationship. The United States relies on that capacity as the cornerstone of its oil policy. That arrangement was fine as long as U.S. protection meant Riyadh would not "blackmail" Washington -- an assumption that is more difficult to accept after September 11. Saudi Arabia's OPEC partners must also cooperate with the kingdom in part to prevent Riyadh from producing a glut and having prices collapse; spare capacity also serves to pressure key non-OPEC producers to cooperate with Saudi Arabia when necessary. But unlike the nuclear deterrent, the Saudi weapon is actively used when required. The kingdom has periodically (and brutally) demonstrated that it can use its spare capacity to destroy exports from countries challenging its market share. This tactic is the weapon that Saudi Arabia could use if Moscow ignores Riyadh's requests for cooperation. Saudi Arabia has triggered its spare capacity twice in recent history, once when prices were especially low. Both cases demonstrated that the kingdom will accept those low prices so long as it suffers less than its targets do. In 1985, Saudi Arabia successfully waged a price war designed to force other oil producers to stop "free riding" on Saudi oil policy. That policy meant that those states had to cooperate with the kingdom by reining in production enough to allow Saudi Arabia to produce the minimum level that it targeted. Oil prices fell by more than half within a few months, and Saudi Arabia immediately regained the market share it had lost in the preceding four years, mainly to non-OPEC countries.

#### That turns the case

Longmuir and Alhajji 7 (Gavin-- petroleum engineer affiliated with the International Petroleum Consultants Association and Af-- energy economist and professor at Ohio Northern University, “West should consider ramifications of its off-oil rhetoric”, Oil & Gas Journal. Tulsa: Feb 12, 2007. Vol. 105, Iss. 6; pg. 26, 3 pgs)

Environmental and political enthusiasm in the West for getting rid of oil as an energy source may have major unintended consequences through its impact on decisions by a handful of key oil exporters. Such consequences could paradoxically include increased Western dependence on oil and higher energy prices. An energy crisis is imminent if oilexporting countries believe Western rhetoric and decide to reduce their investment in capacity expansions at a time when the West is failing to find a suitable substitute. In this case, consumers will pay a dear price for the ill-considered statements of their leaders. If, by contrast, oil producers attempt to counter a policy-induced decline in demand and kill oil substitutes by raising production to lower crude oil prices, or if demand actually declines, a different set of problems might emerge. Either scenario could wreak havoc on the economies in the Middle East, supposedly one of the least stable areas in the world. The cost of such political instability in terms of lives, money, and pollution will render all the positive results from weaning consuming countries off oil negligible. If oil-consuming countries wish to lead the world safely to a future without fossil fuels, they will have to consider energy-market realities and how to meet the revenue needs of current oil exporters, as well as how to ensure adequate oil supplies during the transition and investment sufficient to develop new energy-supply technologies. The new energy vision must adhere to market realities. Otherwise, market forces will soon defeat these efforts.

## Internals/Boosters

### Yes Flood

#### Political concerns will trump economic interests – they will flood

Kisswani 10, Khalid, Gulf University for Science &Technology [“OPEC and Political Considerations when Deciding on Oil Extraction” November 11th, <http://mpra.ub.uni-muenchen.de/27030/1/MPRA_paper_27030.pdf>]

Political decisions may produce short-term deviations from the economic path. For example, destructive events, such as wars or revolutions, may remove capacity from production, and generate unexpected jumps in the price of oil. This is noticed in the oil market through the Iraq-Iran War, the Iranian Revolution, and the Gulf War. The behavior of OPEC in most cases is explained and tested using economic models that portray the behavior of economic agents. The fact that the cooperation within OPEC is among countries (members), not between firms, could cause these models to be incapable of fully explaining OPEC‘s behavior. Recognizing the fact that OPEC‘s members are national governments not private businesses requires that economic analysis of cartels must be blended with political analysis. The rationale of governments is different from the rationale of firms. Governments have a more complex set of interests and tend to emphasize security interests. Furthermore, governments are more complex organizations that contain more potential for internal conflicts over aims and means. Finally, governments have to pay attention to aspects at the social level in a way that firms do not (Willet, 1979). Wirl (2008) investigated different models that can help to explain oil price changes. One approach is political motives. This approach applies political reasoning to OPEC decision makers. The assumption is that politicians are much less concerned about profits than businessmen, since political markets may reward decisions that harm the economy.4 Politicians must strive for popular support, so unity can become an important part of their goals. Countries considered as allies to the West (e. g. Saudi Arabia) have repeated with increasing emphasis their intention to use oil as a weapon to change American and European policy toward the Arab-Israeli conflict. This gives political reward to the leaders of OPEC countries who need popular support, by playing on anti-Western sentiments. Wirl formulates a model that assumes OPEC decision makers maximize the net present value of benefits, which consists of current profit and political support. Political support is represented by harming‘ the West, a strategy that pays off in many Middle East and Latin American countries.

#### The flood will spiral, causing a price crash

Oil and Gas Journal, 2000. [“OPEC eyes another output hike to cut oil prices,” 7/24, Lexis]

The move to boost production likely will trigger a scramble for markets that could cause a tumble of oil prices back to $ 20/bbl, said Fred Leuffer, senior managing partner and oil analyst at Bear, Sterns & Co. The proposed increase would boost OPEC's total production to 25.9 million b/d from the 25.4 million b/d that group members agreed to in June when they raised production by 708,000 b/d. Saudi officials had earlier indicated that they would undertake an increase of 500,000 b/d -- unilaterally, if necessary -- in an attempt to drive down high prices. Under the quotas proposed by Rodriguez, the Saudis would bear the brunt by adding 162,000 b/d of production to a total 8.4 million b/d. "The flood gates are now open. Saudi Arabia's decision to produce more oil means OPEC unity is out the window. The race is on to see which countries can capitalize on these high oil prices while they last," said Leuffer in a report issued last week. He said every OPEC member except Nigeria has cheated on its new production quota in the last 2 months. Saudi officials would like to push back world oil prices to a level of $ 25/bbl to prevent the US from increasing domestic oil exploration and development of alternative energy sources. But it is difficult to engineer a market price reduction, as other nations try to cash in before oil prices drop, Leuffer warned. "**Once oil prices start to fall, it will be hard to stop them**," he said.

### Perception IL

#### Oil exporters empirically react to THREATS to demand with increased production – it’s a rational reaction on their part

Alhajji ’07(Gavin, energy economist and prof at Ohio Northern U, “Need for a Balancing Act,” Middle East Economic Survey, 2-26, <http://www.mees.com/postedarticles/oped/v50n09-5OD01.htm>)

Oil exporters could take Western commentators seriously and assume that oil importers will indeed reduce their demand for oil, leaving them with then-unmarketable oil sitting in the ground. Their logical response to this threat would be to accelerate production of their oil resources while they still have some value. This would of course drive down the price of oil and undermine the economic feasibility of alternative sources of energy. A collapse in the price of oil would be a death sentence for several new energy technologies, which would consequently increase the demand for oil. In fact, the oil-producing countries might view increasing oil production and lowering prices as a logical interventionist policy to counter the anti-oil interventionist policies of the governments of the consuming countries. Historical data from periods of oil price collapses support this point: low oil prices increase oil demand, decrease efficiency improvements, choke alternative energy resources, and increase wastage.8

## Impacts

### Turns Case

#### Low price oil would crowd out oil conserving alternatives

Longmuir and Alhajji 7 (Gavin-- petroleum engineer affiliated with the International Petroleum Consultants Association and Af-- energy economist and professor at Ohio Northern University, “West should consider ramifications of its off-oil rhetoric”, Oil & Gas Journal. Tulsa: Feb 12, 2007. Vol. 105, Iss. 6; pg. 26, 3 pgs)

The main threat to sustainability of energy supplies is not a terrorist attack on energy facilities or the imposition of an oil embargo by an oil producing country. These threats are shortterm events that can be dealt with quickly and effectively through various measures that include the use of the Strategic Petroleum Reserve, increased production, and diversion of oil shipments. The main threat to sustainability of energy supplies in the medium term is the mismatch between investment in production capacity and energy infrastructure, on one hand, and growth in demand for energy, on the other. One of the most plausible scenarios is a relative decline in investment supporting additional production capacity in the oil-producing countries in response to calls around the world to reduce or even eliminate dependence on oil. An energy crisis in this case is imminent if those who are calling for eliminating dependence on oil fail to provide the ultimate replacement in a timely manner. Most likely, these efforts will fail to replace oil within a reasonable time. Most of the efforts to replace oil are not market-driven and are heavily subsidized. They cannot sustain the pressure of markets in the long run.

### Turns Case – Speculation Spikes

#### Even if the bottom didn’t fall out on prices, pumping at max capacity would cause price spikes due to speculation on the way down – empirically proven by pre-recession price highs

Reuters 6/13/12, “Saudi oil spare capacity shrinking fast,” <http://www.reuters.com/article/2011/06/13/us-energy-summit-capacity-idUSTRE75C4B320110613>

Saudi Arabia is the only country in the world with a significant base of idle capacity, and therefore can act as a supplier of last resort in times of crisis. It has already ramped up output following the halt in Libya's over 1 million bpd of oil exports, and is expected to pump more shortly. Following a wave of investment as oil surged to a record high $147 a barrel in 2008, Saudi Arabia says its capacity stands at 12.5 million bpd, giving it a comfortable cushion based on recent output estimates. But analysts are still beginning to debate the risk of a repeat of the last decade, when years of underinvestment and a surge in Chinese demand forced OPEC to pump nearly flat out, drawing down their reserve to less than 1 million bpd. That fundamental tightness underpinned the five-year rally that lifted prices six-fold until 2008. While few expect that to recur as spectacularly, some are warning of spikes. "Once spare capacity falls below 2 million bpd, which will be sometime next year, then we will see substantial spikes in the oil price from time to time," Robeco fund manager Peter Csoregh told the Summit. "There's an inherent bias, especially in the Middle East and Saudi Arabia, to overstate their spare capacity."

# Renewable Shift

### Alt Energy/Warming Impacts – 1NC

#### High oil prices spur the transition – solves warming

Yetiv 6 (Steve Yetiv, Professor of Political Science at Old Dominion University,2/6/6, “America benefits from high oil prices,” San Diego Union-Tribune, <http://www.signonsandiego.com/uniontrib/20060206/news_mz1e6yetiv.html>)

In particular, what can high oil prices do that America's energy policy fails to do? First, sooner or later, high oil prices spur the development of alternative energy resources because they make it more profitable to produce them. The higher prices go, the more entrepreneurs and companies around the world work to move us beyond the hazardous petroleum era. Second, the higher oil prices go, the more likely automakers will mass-produce more efficient, less pricey vehicles. That is precisely what we need to shift the current oil-guzzling paradigm. A joint report by the Transportation Research Institute's Office for the Study of Automotive Transportation at the University of Michigan and the Natural Resources Defense Council shows that higher oil prices will hurt America's top automakers by decreasing sales of SUVs and pickup trucks. The report calls on them to make fuel efficient vehicles their top priority to better the country and their bottom line. Most automakers are experimenting with fuel cell vehicles that run on hydrogen rather than oil. They are also selling 2005 hybrid vehicles that run on an internal combustion engine, as do conventional cars, plus an electric motor. Depending on the car, they yield between 10 percent and 50 percent better gas mileage than regular vehicles, and far better mileage than the ubiquitous SUV. But hybrids represent a drop in the market bucket, because automakers have so far made their profits by mass-producing less efficient, money-making vehicles. And fuel cell vehicles aren't expected to reach the market until 2010. High oil prices are an incentive for making efficient vehicles on a mass, affordable scale, and sooner rather than later. Third, high oil prices make consumers less likely to waste gas and more likely to buy hybrids. In Europe, high gas prices – roughly double that in the United States – have led to mass adoption of hybrids. Investment banking firm Goldman Sachs predicts that gas prices would have to hit $4.30 a gallon in the United States to change the gas-guzzling culture. But it is better to see the impact as relative to price. Fourth, high oil prices benefit the environment. Indeed, one study has shown that a broad energy tax on carbon content in fuels would reduce oil use and carbon emissions by over 10 percent. For that matter, vehicles that run on fuel cells emit only water and heat as waste, and hybrids emit more limited emissions than conventional vehicles. Since carbon emissions cause global warming – a scientific fact rather than science fiction – we should tip our hats to high oil prices, in this respect. Fifth, high oil prices are raising consciousness about the hazards of the oil era. Ninety-three percent of Americans believe that oil dependence is a serious problem. Although they still act like oil is an entitlement, pricey oil may lead them eventually to put pressure on politicians to move toward greater oil independence, as reflected perhaps in President Bush's speech. Of course, higher oil prices are painful. But, over time they can serve the environment, decrease our dependence on Middle East oil, especially from countries like Iran which uses oil money to build nuclear capability and force us to take actions that make us less vulnerable when oil starts to dwindle in the future.

####  Impact is Extinction

Oliver**Tickell**(Climate Researcher) August 11 **‘8**“On a planet 4C hotter, all we can prepare for is extinction”, <http://www.guardian.co.uk/commentisfree/2008/aug/11/climatechange>)

We need to get prepared for four degrees of global warming, Bob Watson told the Guardian last week. At first sight this looks like wise counsel from the climate science adviser to Defra. But the idea that we could adapt to a 4C rise is absurd and dangerous. Global warming on this scale would be a catastrophe that would mean, in the immortal words that Chief Seattle probably never spoke, "the end of living and the beginning of survival" for humankind. Or perhaps the beginning of ourextinction. The collapse of the polar ice caps would become inevitable, bringing long-term sea level rises of 70-80 metres.All the world's coastal plains would be lost, complete with ports, cities, transport and industrial infrastructure, and much of the world's most productive farmland. The world's geography would be transformed much as it was at the end of the last ice age, when sea levels rose by about 120 metres to create the Channel, the North Sea and Cardigan Bay out of dry land. Weather would become extreme and unpredictable, with more frequent and severe droughts, floods and hurricanes. The Earth's carrying capacity would be hugely reduced. Billions would undoubtedly die. Watson's call was supported by the government's former chief scientific adviser, Sir David King, who warned that "if we get to a four-degree rise it is quite possible that we would begin to see a runaway increase". This is a remarkable understatement. The climate system is already experiencing significant feedbacks, notably the summer melting of the Arctic sea ice. The more the ice melts, the more sunshine is absorbed by the sea, and the more the Arctic warms. And as the Arctic warms, the release of billions of tonnes of methane – a greenhouse gas 70 times stronger than carbon dioxide over 20 years – captured under melting permafrost is already under way. To see how far this process could go, look 55.5m years to the Palaeocene-Eocene Thermal Maximum, when a global temperature increase of 6C coincided with the release of about 5,000 gigatonnes of carbon into the atmosphere, both as CO2 and as methane from bogs and seabed sediments. Lush subtropical forests grew in polar regions, and sea levels rose to 100m higher than today. It appears that an initial warming pulse triggered other warming processes. Many scientists warn that this historical event may be analogous to the present: the warming caused by human emissions could propel us towards a similar hothouse Earth.

## High Prices = Renewable Shift

### High Prices => Shift

#### High oil prices accelerate the shift to renewables – more persistent prices lead to more permanent and sustained interest

LA Times 11 (Tiffany Hsu, Staff Writer, “Interest in renewable energy may stick as oil prices surge,” 3/11/11, <http://articles.latimes.com/print/2011/mar/11/business/la-fi-oil-alternate-20110311>)

The latest surge in oil prices may help the renewable energy industry reach a turning point after years of boom-and-bust cycles long dictated by the rise and fall in gas prices. Solar, wind and biofuel investors and analysts said the latest run-up in prices caused by unrest in Libya and other oil-producing nations could lead to lasting interest in alternate sources of energy. They point to several factors converging at the same time that give the industry such hope. Public awareness and worries about climate change, pollution and dwindling resources are at an all-time high. Government funding for alternative energy projects is also on the rise. "This is a crisis that's creating a teachable moment, showing us that we're going in the wrong direction," said Denise Bode, chief executive of the American Wind Energy Assn. "People have been in this situation too many times, and once they see that the alternatives are the real deal, they'll never go back." Concerns that the country's addiction to foreign oil could pose national security risks and that the environment is fraying are stronger than ever, said Bode, who is also the former president of the Independent Petroleum Assn. of America. In California, more than half of the 1.2 billion gallons of gasoline guzzled each month come from foreign sources, according to U.S. government figures. James DiGeorgia, editor of the Gold & Energy Advisor website, said he believes that if countries such as Algeria follow Libya's political upheaval, oil prices could more than double to upward of $200 a barrel. "We've gone from a relatively secure position to a very insecure one," Jim Boyd, vice chairman of the California Energy Commission, said in a statement. "Our exposure to the vagaries and instability of the world oil market has increased by a factor of 10 since the early 1990s." Since then, the renewable energy industry has compiled a stable of high-profile supporters. President Obama said he wants 80% of the energy in the U.S. to come from "clean" sources by 2035. Former Gov. Arnold Schwarzenegger regularly visited wind and solar energy production sites cropping up throughout California. "Why should a dried-up little country like Libya with a crazy dictator play havoc with America's economy and security?" he asked at a recent summit for Advanced Research Projects Agency-Energy, known as ARPA-E, the young Department of Energy program that helps fund early-stage energy research. Various guidelines, mandates and subsidies exist to encourage green energy. California intends to have alternative energy make up 33% of the state's portfolio by 2020. The U.S. Navy plans to run half of its fleet on renewable fuel by 2020. "There's no silver bullet, but there is silver buckshot," Bode said. "Alternative energy is changing the way people look at things." It worked on Lefteris Padavos, 51, a Los Angeles photographer who put solar panels on his roof about six months ago. And because he installed the system himself, he paid just $3,000 out of pocket after government incentives. He also modified a Porsche into an electric car and is expecting a battery-powered Nissan Leaf to arrive in April. "It's not just the price of gas that will go up — the cost of life is going to go up too," he said. "That will force people to come up with new ideas, to learn to live with less and be more creative with the alternatives we have."

#### High oil prices accelerate the transition to renewables

Rivlin 11(Paul Rivlin has a PhD from the University of London and is a Senior Research Fellow at the Moshe Dayan Center for Middle Eastern and African studies, specializing in the Middle East economy and its historical development, “High Oil Prices and the Middle East Strategic Balance,” on March 16,2011 from <http://www.dayan.org/pdfim/TA_Notes_RIVLIN_Oil_MAR16_11.pdf>)

Does it make sense for the US and other Western countries to reduce oil consumption? High oil prices will do this automatically if they are maintained, because they will encourage the use of alternative fuels and technologies that use less fuel. Stimulating this by government action would reduce exposure to oil price rises/shortages and would encourage the development of new technologies. These could help to stimulate economic growth and be exported to China and other fast growing, oil importing countries. They would also have beneficial environmental effects. It is too late to avoid the effects of the current predictable and predicted crisis; any measures undertaken now would only affect the demand for oil in the medium term.

#### Investment Link – empirical data proves that oil price instability stimulates more private capital investment in renewable energy tech

Huang et. al 11 (Alex YiHou, Department of Finance, Yuan Ze University, Taiwan, Chiao-Ming Cheng Graduate School of Management, Yuan Ze University, Taiwan, Chih-Chun Chen Graduate School of Management, Yuan Ze University, Taiwan, Wen-Cheng Hu Graduate School of Management, Yuan Ze University, Taiwan “Oil Prices and Stock Prices of Alternative Energy Companies: Time Varying Relationship with Recent Evidence” http://www.southwesternfinance.org/conf-2011/swfa2011\_submission\_30.pdf kdej)

 In sum, while price uncertainty of crude oil rises and green energy gains greater deal of attention in recent years, the interrelationships between oil prices and stock performances of alternative energy companies become more significant. For Periods I and II, time before the Lebanon War from 2001 to late 2006, no causality is shown from oil prices to ECO index or vice verse, implying that the movements of crude oil prices do not affect how the investors trade with the stocks of alternative energy industry. In the most recent period, when oil prices reach historical high and crash back with volatile dynamics, oil price behavior becomes responsible for stock performances of alternative energy companies. Also only recently, the dynamics in oil trading also depend on how stocks of oil companies perform. These results add to literature showing that investors of alternative energy companies conduct their trading decisions upon observation of crude oil price shocks. The two markets, i.e. crude oil market and stock market for green energy sector, seem to be more closely interactive with each other. The full picture of how the crude oil markets react to the development of green energy, however, requires additional examinations and is certainly an area worthy of future exploration.

### Low Prices => Warming

#### Lower oil prices would accelerate warming – reduced efficiency and Chinese growth

Bryce ’07(Robert, energy analyst, “The Dangers of Cheap Oil,” 1-19, Energy Tribune, http://www.energytribune.com/articles.cfm?aid=354&idli=1#)

Cheaper oil would mean higher consumption in developing countries like China and India. The Chinese government has repeatedly increased the price of motor gasoline in an effort to slow that country’s insatiable thirst for oil. Cheaper crude would reduce China’s oil import bills and thereby allow greater consumption with little cost. Cheap crude would short-circuit the push for greater automotive fuel efficiency. American motorists have, of late, been buying more fuel-efficient vehicles. If oil prices fall and stay at $1 or $1.50, they will happily return to their Hummers, big pickups, and SUVs. And that could, once again, set up a scenario that would allow foreign automakers to capture even larger segments of the auto industry when gasoline prices rise again. Low-cost oil would increase emissions of greenhouse gases. One can argue all day about what’s causing global warming. But if policymakers want to embrace Kyoto or anti-warming initiatives, cheap oil is the last thing they should want.

### Alt Energy/Warming Impact - Ext

#### Low oil prices would displace alternative energy sources

Washington Times 9 (Tom LoBianco, “Low oil prices seen stalling clean energy”, February 24, 2009, http://www.washingtontimes.com/news/2009/feb/24/low-oil-prices-seen-stalling-clean-energy/)

Former President Bill Clinton and former Vice President Al Gore warned Monday against letting low oil prices lure consumers back into gas-guzzling cars, thereby stalling efforts to develop clean energy sources. Mr. Gore warned that the country’s “political will” to invest in renewable energy projects and break its dependence on oil has waxed and waned as the price of oil has fluctuated over the decades. “We need to get the market to work for us by putting a price on carbon,” Mr. Gore said. Mr. Clinton said that his home state of Arkansas’ attempts to cut back on using fossil fuels routinely have been stymied when the price of oil dropped. “Every time oil dropped, people said give me my Hummer back,” the former president said. The price of oil peaked at around $147 a barrel last year, pushing the price of a gallon of gas to more than $4 across the nation, but fell sharply as the global economy tanked dropping to just more than $30 a barrel. Lawmakers, environmentalists and energy experts have generally stated that the volatility of oil prices has made it hard to develop a national energy strategy which reduces carbon-dioxide emissions and fortifies national security. Some energy analysts have proposed establishing a price floor for oil through a government tax, but the concept has been given little credence on Capitol Hill. President Obama’s transportation secretary, Ray LaHood, floated the idea of changing how the gas tax was administered last week, but was quickly shot down by the White House. Mr. Clinton and Mr. Gore talked during an expansive conference hosted by the Center for American Progress Action Fund and focused on how to reduce the nation’s dependence on oil, invest in renewable energy sources and build out an expansive “smart” energy grid. While there’s broad support in Washington for cutting back the amount of oil the nation imports, lawmakers have split over whether to allow expanded drilling for oil at home. The Obama administration put the brakes on a last-minute Bush administration policy which would have allowed for expansive drilling for oil and natural gas offshore, and canceled leases to allow for drilling in Utah. The administration has said that domestic oil production will be part of a broader energy plan to wean the nation off of foreign oil. Environmentalists have asked Congress to reinstate a ban on offshore drilling that lawmakers allowed to lapse last year, but House Natural Resources Committee Chairman Nick J. Rahall II, West Virginia Democrat, has said that it is unlikely to happen. The committee plans to examine offshore drilling this week.

# Russia DA (High Prices Good)

## Russia 1NC

### Russia 1NC

#### A decrease in oil prices would destroy the Russian economy – private and public institutions are uniquely sensitive to price declines

VOA 6/11/2012 (Voice of America News, Henry Ridgwell, <http://www.voanews.com/content/falling-oil-prices-prompt-russian-economic-fears/1206097.html>)

Oil prices have shown a steady fall in the last few months, prompting fears that the Russian economy, which relies heavily on energy exports, could suffer. Meanwhile, new sources of oil are coming on line and helping to drive down the price at the pump. Khanty-Mansiysk in Siberia - home to around 70 percent of Russia’s developed oil fields and the source of much of the country’s wealth. Russia produces more than 10 million barrels of oil per day - making it a major energy player. Stephen Tindale, an energy economist at the Center for European Reform, said, “Almost half of the Russian government’s revenue comes from various taxes on oil and gas exports.” Tindale says that leaves the Russian economy highly vulnerable to a fall in oil prices. “It would mean their budget was well out of balance and so would be very serious, short-term, for Putin and the Russian government," he said.

#### Russian economic decline causes domestic instability and nuclear launch.

Oliker and Charlick-Paley 2002 (Olga and Tanya, RAND Corporation Project Air Force, “Assessing Russia’s Decline,” www.rand.org/pubs/monograph\_reports/MR1442/)

What challenges does today’s Russia pose for the U.S. Air Force and the U.S. military as a whole? Certainly Russia cannot present even a fraction of the threat the Soviet monolith posed and for which the United States prepared for decades. Yet, if certain negative trends continue, they may create a new set of dangers that can in some ways prove even more real, and therefore more frightening, than the far-off specter of Russian attack ever was. As a weak state, Russia shares some attributes with “failed” or “failing” states, which the academic literature agrees increase the likelihood of internal and interstate conflict and upheaval. Tracing through the specifics of these processes in Russia reveals a great many additional dangers, both humanitarian and strategic. Moscow’s efforts to reassert central control show that much control is already lost, perhaps irretrievably. This is manifested both in center-periphery relations and in the increasing failure of law and order throughout the country, most clearly seen in the increasing institutionalization of corruption and crime. Although Russia’s weakened armed forces are unlikely, by temperament and history, to carry out a coup, real concerns exist that the forces may grow less inclined to go along with aspects of government policy, particularly if they are increasingly used as instruments of internal control as in Chechnya. Moreover, the fact that the Russian military is unlikely to attempt to take power does not mean that it will not seek to increase its influence over policymaking and policy-makers. The uncertainties of military command and control threaten the possibility of accidental (or intentional) nuclear weapon use, while deterioration in the civilian nuclear sector increases the risk of a tragic accident. Russia’s demographic trajectory of ill health and male mortality bodes ill for the nation’s ability to resolve its economic troubles (given an increasingly graying population) and creates concerns about its continued capacity to maintain a fighting force even at current levels of effectiveness. Finally, the fact that economic, political, and demographic declines affect parts of Russia very differently, combined with increased regional political autonomy over the course of Russian independence and continuing concerns about interethnic and interregional tension, creates a danger that locality and/or ethnicity could become rallying cries for internal conflict. While some might argue that Russia’s weakness, or even the potential for its eventual collapse, has little to do with the United States, the truth is that a range of U.S. interests is directly affected by Russia’s deterioration and the threats that it embodies. The dangers of proliferation or use of nuclear or other weapons of mass destruction (WMD), heightened by Russian weakness, quite directly threaten the United States and its vital interests. Organized crime in Russia is linked to a large and growing multinational network of criminal groups that threatens the United States and its economy both directly and through links with (and support of) global and local terrorist organizations. Russia is also a major energy producer and a transit state for oil and gas from the Caspian at a time when the U.S. government has identified that region, and energy interests in general, as key to its national security. Washington’s allies, closer to Russia physically, are not only the customers for much of this energy but are also the likely victims of any refugee flows, environmental crises, or potential flare-ups of violence that Russian decline may spur. Finally, recent history suggests a strong possibility that the Untied States would play a role in seeking to alleviate a humanitarian crisis on or near Russian soil, whether it was caused by epidemic, war, or a nuclear/industrial catastrophe.

## Uniqueness

### AT: “Oil Prices Down Now”

#### Russia has built flexibility into their budgeting projections – they’re able to weather current price fluctuations, but not anything that goes lower

Wall Street Journal 7/4/12 “Russia to Take $60 a Barrel Oil as One Budget Assumption” <http://online.wsj.com/article/BT-CO-20120704-705170.html>

The Russian government will consider a sharp fall in the price of oil, to just $60 per barrel, as one of its budget scenarios for 2013, officials said Wednesday, stressing however that this would be only a risk assessment. "This is...a forecast of a behavioral model in the case of a sharp drop in oil prices, which could be unlikely," Deputy Finance Minister Tatyana Nesterenko said. The Russian economy is hugely dependent on oil sales, which make up the lion's share of the federal budget revenue. A lower oil price may force Russia to cut or postpone spending as a so-called budget rule, requiring a share of oil income to be put aside, becomes law in 2013. Russia needs benchmark Brent crude to average $117 per barrel in order to keep this year's budget in the black, the Finance Ministry has estimated. So far, none of the scenarios envisaged the price of oil to average below $80 per barrel, at which price Russia's economy is expected to contract and result in a budget deficit in low single digits. Russia's Economy Ministry currently sees oil averaging $115 per barrel in 2012, but is considering reverting to its earlier forecast of $105 per barrel. An average oil price at $115 a barrel may cut this year's budget deficit to 0.1% of gross domestic product from an earlier projection of 1.5%. Wednesday, front-month Brent crude on London's ICE futures exchange was trading just below $100 a barrel. Crude oil prices continued an extended fall in June, in reaction to a series of disappointing policy responses to the European debt crisis and softening economic data in the U.S. and China, before rallying strongly on progress made at the latest European Union summit and the bloc's sanctions on Iranian crude. Although Goldman Sachs sees oil at $127.50 a barrel at the end of the year, Dieter Wermuth, chief economist of Wermuth Asset Management, expects "the oil price to fall again, after it will have reached an intermediate peak of perhaps $115."

### AT: “Overheat Now”

#### Overheat risks have passed – status quo price declines and economic slowdown will cause a soft landing

Bloomberg Businessweek 6/21/12 “Russian Economy Overheating Risk to Abate, Bank of America Says” <http://www.businessweek.com/news/2012-06-21/russian-economy-overheating-risk-to-abate-bank-of-america-says>

The Russian economy’s risk of “overheating” from consumer spending is about to ease as slowing global growth pushes down oil prices, the key source of revenue for the world’s largest energy exporter, Bank of America (BAC) Merrill Lynch said. The country’s lowest-ever unemployment rate at 5.4 percent and wage growth of 15.1 percent in May, reported by the statistics office yesterday, prompted the bank to lift its end-2012 inflation forecast to 6.3 percent from 6 percent, Vladimir Osakovskiy, chief economist at Bank of America Merrill Lynch in Moscow, wrote in an e-mailed note today. Russia’s economy expanded 4.9 percent from a year earlier in the first quarter as consumers take advantage of record-low inflation, a boost in government spending and delays to increases in regulated prices. Even so, cooling global growth and falling oil prices are bound to limit the risks, Bank of America said. “All of these supportive factors and trends will reverse later in the year,” Osakovskiy wrote. “The economy should start to feel the impact of lower oil prices and a related decline in corporate profits.”

## Links

### Low Prices Hurt Economy

#### Russia needs oil!!

Schuman 7/5 (Michael Schuman, Asia and global economic issues as a correspondent for TIME in Hong Kong, master of international affairs from Columbia, “Why Vladimir Putin Needs Higher Oil Prices” 7/5/12 Time, http://business.time.com/2012/07/05/why-vladimir-putin-needs-higher-oil-prices/?iid=biz-main-mostpop1)

Falling oil prices make just about everyone happy. For strapped consumers in struggling developed nations, lower oil prices mean a smaller payout at the pump, freeing up room in strained wallets to spend on other things and boosting economic growth. In the developing world, lower oil prices mean reduced inflationary pressures, which will give central bankers more room to stimulate sagging growth. With the global economy still climbing out of the 2008 financial crisis, policymakers around the world can welcome lower oil prices as a rare piece of helpful news. But Vladimir Putin is not one of them. The economy that the Russian President has built not only runs on oil, but runs on oil priced extremely high. Falling oil prices means rising problems for Russia – both for the strength of its economic performance, and possibly, the strength of Putin himself. Despite the fact that Russia has been labeled one of the world’s most promising emerging markets, often mentioned in the same breath as China and India, the Russian economy is actually quite different from the others. While India gains growth benefits from an expanding population, Russia, like much of Europe, is aging; while economists fret over China’s excessive dependence on investment, Russia badly needs more of it. Most of all, Russia is little more than an oil state in disguise. The country is the largest producer of oil in the world (yes, bigger even than Saudi Arabia), and Russia’s dependence on crude has been increasing. About a decade ago, oil and gas accounted for less than half of Russia’s exports; in recent years, that share has risen to two-thirds. Most of all, oil provides more than half of the federal government’s revenues. What’s more, the economic model Putin has designed in Russia relies heavily not just on oil, but high oil prices. Oil lubricates the Russian economy by making possible the increases in government largesse that have fueled Russian consumption. Budget spending reached 23.6% of GDP in the first quarter of 2012, up from 15.2% four years earlier. What that means is Putin requires a higher oil price to meet his spending requirements today than he did just a few years ago. Research firm Capital Economics figures that the government budget balanced at an oil price of $55 a barrel in 2008, but that now it balances at close to $120. Oil prices today have fallen far below that, with Brent near $100 and U.S. crude less than $90. The farther oil prices fall, the more pressure is placed on Putin’s budget, and the harder it is for him to keep spreading oil wealth to the greater population through the government. With a large swath of the populace angered by his re-election to the nation’s presidency in March, and protests erupting on the streets of Moscow, Putin can ill-afford a significant blow to the economy, or his ability to use government resources to firm up his popularity.

#### Lower Oil Prices Hurts Russia’s Economy

Reuters 6/25. Richard Mably for Reuters News. June 25, 2012. Reuters News Agency. <http://in.reuters.com/article/2012/06/25/saudi-oil-idINL5E8HJGHB20120625.-JS>.

Saudi Arabia is showing no sign of changing its policy of high oil output to support global economic growth, despite a fall in crude prices below $90 a barrel for the first time in 18 months. Gulf and Western government sources in contact with Saudi officials said the OPEC power can tolerate oil at $90 or below for months, price levels that hurt Iran and Russia as they face off against Riyadh over the conflict in Syria. Saudi Arabia has a built up a revenue surplus in the first half of the year and requires a much lower oil price to balance its budget than most of its fellow OPEC members and leading non-OPEC producer Russia. "If we keep producing at roughly the same rate, we're not flooding the market," said a senior oil official from a Gulf producer. "And we want to act responsibly for the sake of the world economy." Strong supporters of fellow Sunni Syrian rebels seeking to oust Syrian President Bashar al-Assad, Saudi leaders have criticised Russia for defending him. With Iran, Russia is Syria's main ally, providing most of its arms. Both Moscow and Tehran need crude at $115 a barrel to meet budget requirements. "Russia's economy is vulnerable to a sharp drop in oil prices," said U.S. oil analyst Phil Verleger. "The Saudis may be able to exploit that vulnerability by keeping production at 10 million barrels per day." Industry sources say Saudi Arabia, the only oil producer with significant spare capacity, looks set to trim output over the next two months, but only because demand from refineries in China and the United States will dip. "We're told the Saudis are OK with lower prices, $90 or below, for a few months," said a Western diplomat. "Even if they have to trim back because of lower demand they don't give us the impression they'll be bailing out OPEC on price any time soon," he said. Crude is down from a March peak of $128 partly because the economic outlook has darkened but also because Saudi Arabia, pressed by major consumer countries, opened the taps in March to a 30-year high of 10 million bpd. That has made up for a slump in output from Iran because of sanctions, not only drawing criticism from Tehran but others in the Organization of the Petroleum Exporting Countries who prefer higher prices including Algeria, Iraq and Venezuela. As the group's main swing producer, Riyadh is largely responsible for the extra volumes that have taken OPEC in excess of its official 30 million bpd output ceiling. OPEC ministers at a meeting in mid-June said they would adhere to the collective limit, implying a 1.6 million bpd cut from actual supply for 12 members of 31.5 million. For that to happen Saudi Arabia would need to cut back sharply. The prospects of that look slim. SAUDI QUESTIONS Delegates who attended the OPEC meeting say Saudi Oil Minister Ali al-Naimi quizzed his counterparts in the 12-member cartel about what contribution they would be making to the cut. "He went round one by one and there was silence -- no-one was willing to volunteer a cut," said one delegate. Asked if Saudi Arabia would be cutting back, an OPEC delegate gave a one word answer: "No". Unable to agree individual quota allocations under its collective limit, OPEC has no way of policing output. "It's highly dysfunctional because most of the countries within OPEC have not been investing enough, so they have little spare capacity. Saudi Arabia is the central bank of oil, much more than it ever was, and that's the reality," said Leo Drollas at the Centre for Global Energy Studies in London. Underscoring its intentions around what Saudi oil minister has called a "type of stimulus" for the world economy, Riyadh increased its exports in June from May by about 150,000 bpd, an industry source with knowledge of Saudi supply said. Assuming steady Saudi domestic demand, that would push its output close to 10 million bpd again in June after a dip in May to 9.8 million. Saudi exports will probably decline in July and August though, an industry source said, because Chinese refinery maintenance will cut its demand by about 350,000 bpd. The closure for repairs of the new wing of the biggest U.S. refinery, at Port Arthur in Texas, removes another 200,000 bpd of demand. Again assuming steady Saudi domestic consumption, that might mean production comes down to about 9.5 million. Saudi has banked an oil revenue surplus in the first half of the year to see it through leaner times. "Gulf countries can put up with prices of under $90 because during the first half of the year prices were over $100 so a lot of profits have already been made over that period," said a Gulf OPEC country official. "So don't expect the Gulf countries to instantly turn off supply just because the price goes under $90." To date this year Saudi Arabia has earned a little over $155 billion from oil exports, according to Reuters calculations based on an export price for Saudi crude of $114 on average. Riyadh is estimated to need about $75-$80 a barrel to balance its budget this year. Drollas said the CGES calculated that if OPEC kept output at current levels of about 31.5 million bpd, oil prices would fall to an average $74 a barrel in the fourth quarter and $59 a barrel in the first quarter of 2013.

#### Russia is on the edge of a major economic decline – Putin’s budget is vulnerable to oil price declines and the government won’t adjust to limit their exposure

Kramer and Herszenhorn 6/24. Andrew E. Kramer and David M. Herszenhorn citing former Russian Finance minister Aleksei L. Kurdin in the Petersburg Post-Gazette. June 24, 2012. “Former Russian Minister Warns Of Economic Ebb”. http://www.post-gazette.com/stories/news/world/former-russian-minister-warns-of-economic-ebb-641787/.-JS.

President Vladimir V. Putin was all swagger last week at the annual economic forum here, effectively wagging a finger at Europe over its fiscal problems and keeping the chief executives of some of the world's most powerful oil companies waiting for hours in a hallway until he finally met with them. In the forum's keynote address, Mr. Putin boasted of Russia's relatively low debt burden, balanced budget and "fiscal discipline." But the man largely credited with putting Russia in this enviable position, the former minister of finance, Aleksei L. Kudrin, warned at a news conference on Saturday that Russia was in danger of falling into a recession and that Mr. Putin should delay much of the increased social and military spending that he announced during his recent campaign for the presidency. Mr. Kudrin, who was ousted from the government last year after protesting rising military spending, said he listened to presentations and speeches at the forum, where Russian officials typically woo foreign investors, and heard expressions of "worry" and discussions of "worst-case scenarios." Still, he said, "the situation is a lot worse than it was presented." With Europe apparently slithering into recession this summer, Russia is now more likely than not to suffer a crisis of its own this year, he said. While he acknowledged that other economists were less worried about Russia than he is, he said, "I saw even less worry in the Russian government." Banks and investors are already pulling money out of Russia, he said in a question-and-answer session with journalists at the close of the three-day St. Petersburg International Economic Forum, while indications from Europe worsen by the day. Mr. Putin, in contrast, spoke of Europe's turmoil largely to highlight that Russia is better off. The gross domestic product, Mr. Putin said, will grow 4.3 percent this year. Money the government salted away in sovereign wealth funds from oil profits is ready to prop up businesses in a crisis, he said. And Russia's debt, measured as a proportion of economic output, is one-tenth that of the United States and many European countries. Mr. Putin, in an apparent reference to the West, said heads of state must show "effective leadership and a responsible course of action" to halt the euro zone sovereign debt crisis. "That means a balanced-budget policy, control over state debt and fiscal discipline," he said. "Rampant financial speculation and political populism are equally dangerous." But Mr. Kudrin said Mr. Putin might need to rethink some of his own populism and renege on spending promises. Otherwise, Mr. Kudrin said, Russia's budget could become too vulnerable to a downturn in global oil prices. During this year's presidential campaign, Mr. Putin announced higher wages, better maternity leave benefits and greatly expanded military spending in the coming decade. "We need to look again at all programs being launched or expanded," Mr. Kudrin said. "Even our current expenditures will be difficult to meet." To balance even this year's more modest budget, Russia needs oil prices for European export of $117 a barrel or higher; the price on Friday was $90.37. Russia's economy suffers when oil prices decline. The Kremlin, Mr. Kudrin said, should brace itself for an extended oil price slump to $60 per barrel or lower.

### Demand Decreases Kill Economy

#### Oil demand reductions would severely cripple the Russian economy

Carey 03 2/24/2003 (John, Business Week, "Taming the Oil Beast,"http://www.businessweek.com/magazine/content/03\_08/b3821001.htm)

Yet reducing oil use has to be done judiciously. A drastic or abrupt drop in demand could even be counterproductive. Why? Because even a very small change in capacity or demand "can bring big swings in price," explains Rajeev Dhawan, director of the Economic Forecasting Center at Georgia State University's Robinson College of Business. For instance, the slowdown in Asia in the mid-1990s reduced demand only by about 1.5 million bbl. a day, but it caused oil prices to plunge to near $10 a barrel. So today, if the U.S. succeeded in abruptly curbing demand for oil, prices would plummet. Higher-cost producers such as Russia and the U.S. would either have to sell oil at a big loss or stand on the sidelines. The effect would be to concentrate power--you guessed it--in the hands of Middle Eastern nations, the lowest-cost producers and holders of two-thirds of the known oil reserves. That's why flawed energy policies, such as trying to override market forces by rushing to expand supplies or mandating big fuel efficiency gains, could do harm.

### Price Declines Cause Social Unrest

#### Lower oil prices would cause social unrest in Russia

Steve Levine, 6/20/12, Author Steve Levine is a contributing editor at Foreign Policy, a Schwartz Fellow at the New America Foundation,. He is also an adjunct professor at the Georgetown University School of Foreign Service, “Foreign Policy: The Coming Oil Crash”, <http://www.npr.org/2012/06/20/155423920/foreign-policy-the-coming-oil-crash>, Accessed 6/28/12 - AG

Low oil prices can have serious social impacts simply because, with less free cash, people tend to start more closely scrutinizing their surroundings — and when they become unhappy with what they see, they start looking for a scapegoat. The conditions that led to the string of Arab Spring ousters were not so much the lack of democracy as widespread public dissatisfaction with personal economic prospects. Analysts see similar vulnerabilities for the rulers of Iran, Russia, and Venezuela; when Venezuelan President Hugo Chávez can no longer milk the state oil company for public payouts, for instance, his political support could be in jeopardy.

### Supply Increases

#### Supply growth suppresses prices, causing Russian economic decline

Gonzalez 6/27/2012 (Angel, Houston Bureau Chief at Dow Jones Newswires and Contributor to the Wall Street Journal, “Expanded Oil Drilling Helps U.S. Wean Itself From Mideast,” The Wall Street Journal)

The prospect that new sources of supply in the Americas could lead to years of flat or even falling oil prices is a source of great concern in the Kremlin. Surging oil revenues over his 12 years in power have helped President Vladimir Putin pay for an eightfold increase in government spending, going to everything from pension and wage hikes to costly projects like the Sochi Olympics to a major military buildup.

## Impacts

### Outweighs (Bostrum)

#### Prefer our impact – it’s the only truly existential risk

Bostrom 2 (Nick, professor of philosophy - Oxford University, 2009 Winner of Eugene R. Gannon Jr. Award for the Continued Pursuit of Human Advancement, Existential Risks: Analyzing Human Extinction Scenarios and Related Hazards, Journal of Evolution and Technology, p. <http://www.nickbostrom.com/existential/risks.html>)

A much greater existential risk emerged with the build-up of nuclear arsenals in the US and the USSR. An all-out nuclear war was a possibility with both a **substantial probability** and with consequences that might have been persistent enough to qualify as global and terminal. There was a real worry among those best acquainted with the information available at the time that a nuclear Armageddon would occur and that it might annihilate our species or permanently destroy human civilization.[4] Russia and the US retain large nuclear arsenals that could be used in a future confrontation, either accidentally or deliberately. There is also a risk that other states may one day build up large nuclear arsenals. Note however that a smaller nuclear exchange, between India and Pakistan for instance, is not an existential risk, since it would not destroy or thwart humankind’s potential permanently. Such a war might however be a local terminal risk for the cities most likely to be targeted. Unfortunately, we shall see that nuclear Armageddon and comet or asteroid strikes are mere preludes to the existential risks that we will encounter in the 21st century.

### Nuclear War

#### Russia Economic Collapse leads to nuclear war

Filger 9. Sheldon Filger has written books and articles involve subjects as diverse as politics, economics, nuclear terrorism. Huffignton Post. May 10, 2009. <http://www.huffingtonpost.com/sheldon-filger/russian-economy-faces-dis_b_201147.html>.

In 1987 I visited the Soviet Union with Republican Congressman Tom DeLay (who has since moved on to bigger-but not necessarily better-things), and observed firsthand how a society with bright, well-educated people can still undergo a profound economic collapse when the elites running the nation are infused with corruption, fossilized dogmas and misplaced priorities. Four years after my visit, the USSR of old imploded under the weight of its own colossal economic mismanagement and contradictions. Will history repeat itself? The Russia of today is far from immune to the ramifications of the Global Economic Crisis. Though I would not argue that the Russia being ruled by the duality of President Dmitry Medvedev and Prime Minister Vladimir Putin is on the same trajectory as Gorbachev’s Soviet Union, there has already emerged a sustained trend of harsh macroeconomic data that attests to a severe economic crisis gripping the Russian nation. The country’s stock market has sustained losses from its peak in the range of 70%, while the prices for Russia’s commodity exports, the major source of foreign exchange earnings, have plummeted at a staggering rate, especially with regards to oil and natural gas. Perhaps more alarming, the latest projection by the European Bank of Reconstruction and Development reveals a dire forecast of negative 7.5 % growth in Russia’s GDP for 2009. Though some believe that the EBRD projection may be too pessimistic, only four months ago this same institution was predicting that the Russian economy would contract by a mere negative 1%. Recent indicators point to a national economy going south at an accelerating pace, reflected in official Russian government statistics which reveal that the national economy contracted by a staggering negative 9.5%. in Q1 of 2009. At the very least, Moscow faces a crippling recession. The Medvedev/Putin regime has initiated a host of policy responses to mitigate the impact of the Global Economic Crisis on the nation’s fragile economy. Time will determine their long-term effectiveness; however, in the short-term some measures have proven more efficacious than others. A major goal of Moscow’s economic technocrats has been to stabilize the country’s banking system, and for the time being a degree of success has been achieved through government provision of liquidity to financial institutions. However, this complex geopolitical space that is Russia is now facing a vast array of complex challenges that other members of the G8 are spared, despite the destructive impact of the global synchronized recession facing all major industrialized countries. In Russia historically, economic health and political stability are intertwined to a degree that is rarely encountered in other major industrialized economies. It was the economic stagnation of the former Soviet Union that led to its political downfall. Similarly, Medvedev and Putin, both intimately acquainted with their nation’s history, are unquestionably alarmed at the prospect that Russia’s economic crisis will endanger the nation’s political stability, achieved at great cost after years of chaos following the demise of the Soviet Union. Already, strikes and protests are occurring among rank and file workers facing unemployment or non-payment of their salaries. Recent polling demonstrates that the once supreme popularity ratings of Putin and Medvedev are eroding rapidly. Beyond the political elites are the financial oligarchs, who have been forced to deleverage, even unloading their yachts and executive jets in a desperate attempt to raise cash. Should the Russian economy deteriorate to the point where economic collapse is not out of the question, the impact will go far beyond the obvious accelerant such an outcome would be for the Global Economic Crisis. There is a geopolitical dimension that is even more relevant then the economic context. Despite its economic vulnerabilities and perceived decline from superpower status, Russia remains one of only two nations on earth with a nuclear arsenal of sufficient scope and capability to destroy the world as we know it. For that reason, it is not only President Medvedev and Prime Minister Putin who will be lying awake at nights over the prospect that a national economic crisis can transform itself into a virulent and destabilizing social and political upheaval. It just may be possible that U.S. President Barack Obama’s national security team has already briefed him about the consequences of a major economic meltdown in Russia for the peace of the world. After all, the most recent national intelligence estimates put out by the U.S. intelligence community have already concluded that the Global Economic Crisis represents the greatest national security threat to the United States, due to its facilitating political instability in the world. During the years Boris Yeltsin ruled Russia, security forces responsible for guarding the nation’s nuclear arsenal went without pay for months at a time, leading to fears that desperate personnel would illicitly sell nuclear weapons to terrorist organizations. If the current economic crisis in Russia were to deteriorate much further, how secure would the Russian nuclear arsenal remain? It may be that the financial impact of the Global Economic Crisis is its least dangerous consequence.

### Accidental Launch

#### Russian economic decline degrades their nuclear weapons complex, risking accidental launch

Blair & Gaddy Summer 1999 (Bruce – president of the World Security Institute, and Clifford – senior fellow of foreign policy at Brookings, Russia's Aging War Machine, The Brookings Review, Volume 17, Issue 3, p. 11)

Western policymakers appear not to recognize that the fate of Russia's economy is neither exclusively Russia's problem nor exclusively an economic problem. Although Russia, with its nearly $200 billion of foreign debt, still has the ability to shake global financial markets-and likely will do so-the unquestionably bigger threat posed by its weak economy concerns national security. Russia's economic woes increase the nuclear threat to the United States. Russia's Small Economy The Cold War military machine built up by Moscow proved economically unsustainable even for the USSR. But Russia, which inherited most of the Soviet military burden, has only half the population and perhaps 60 percent of the industrial base of the USSR. Moreover, Russia's economy, as measured by its GDP, has shrunk by roughly half since 1990. Still more important is the state of the public sector. For more than a decade, Russia's federal government has failed to maintain even the basic functions of ensuring national security, environmental safety, and public health. To a large extent, the state has become marginalized as a part of the Russian economy-the very reverse of the Soviet system. The Soviet economy assigned first priority to building and maintaining state power, especially military might. The civilian economy, particularly the household sector, was the residual claimant of resources and wealth created; it had to make do with whatever was left over. Today, individuals and households can and do meet their own needs first, resisting in every way possible the claims of the state on them. The overwhelming majority of Russian farms produce nearly nothing beyond what their workers can consume. Many industrial enterprises do the same, producing barely enough output to sustain the existence of their own employees. Almost nothing is left that can be taxed to support the state apparatus. Moreover, the little that is available to the state is used in highly inefficient ways-primarily because so little state revenue is in the form of money. The Nonmonetary Economy Throughout the Russian economy, individuals, households, enterprises, and governments operate without cash. Very large enterprises are the extreme cases. Roughly three-quarters of their operations involve no money. But governments are close behind. Some city government budgets are no more than 5 percent money. The rest is in barter goods and debt swaps with providers of goods and services to the government. Even within the federal government, some agencies exist with almost no money at all. One such agency is the Ministry of Defense. Russia's 1999 federal budget calls for defense spending of about 100 billion rubles. Using even the most generous estimate of the domestic purchasing power of the ruble, this is equivalent to no more than $20 billion, or less than one-twelfth of the U.S. defense budget. But even this figure is misleading, for it implies that the Russian defense ministry has real money at its disposal. In fact, it has virtually none. Over the past few years, Russia's defense ministry has built up debts to its suppliers that now total six to seven times the annual defense procurement order. The little "payment" that is made for goods delivered is not in money, but a credit for taxes owed to the federal and regional governments. Guided not by the needs of the armed forces, but by political expediency, the federal government bargains with powerful governors whose main concern is to protect jobs in their regions. The resulting practice of socalled offsets is typical of the highly inefficient use of even the minuscule nominal resources available to the Ministry of Defense. It is a seller's market. A ministry that should be making the wisest use possible of its limited procurement budget, concentrating on critical systems and upgrades, is forced to take whatever the factories have available-in most cases, not weapons at all, but rather goods that can most readily be bartered for food and clothing. Entire military units have become "self-financing."They barter the use of their trucks for food. They contract out their troops to farms in return for part of the harvest. For the military, as for the rest of Russian society today, barter allows people and institutions to survive. But the cost in terms of economic efficiency is huge. The Cash Constraint The ultimate constraint in this system is the minimal cash needed to pay wages, especially to officers whose families live off-base. Here, the situation is critical. The sharp increase in consumer prices after last August's financial collapse drove pay and allowances for Russian servicemen far below subsistence income levels. A pay hike scheduled for mid-1999 will at best compensate only for the inflationary loss, but will not be a real improvement over pay a year ago. And that was bad enough. In 1998 the defense ministry was able to cover only 50 percent of its planned budget for food and only 8 percent of the projected clothing budget. What little was available had to be used for conscripts being fed in mess halls. Officers' families typically had to rely on donations from relatives, friends, and neighbors. As one officer's wife put it in a television interview in late March, "We have to hope our neighbors continue to support us and the two boys. So far, they have all pitched in. Even the pensioners in our apartment building bring food and beg us to take it, saying that they know that we are worse off than they are." Economic weakness is strengthening the anti-Western, antidemocratic, and antimarket reform trends in Russia today. It is also steadily eroding the military's tradition of political neutrality Although the military's aversion to Bonapartism appears to remain intact, rising nationalism draws additional strength from its growing politicization. Effects on the Nuclear Forces For Russia's conventional forces, the combination of lack of resources and the time and effort that must be diverted to sheer survival has been devastating to combat readiness. But nowhere does the weakness and inefficiency of Russia's state economy have more serious implications than in maintaining the sophisticated systems and men of the nuclear weapons complex. The strategic weapons themselves are fast reaching the end of their shelf life, and Russia cannot afford replacements. Current aging forces have become more vulnerable. Surveillance satellites and radars are wearing out. Russia's early warning system is decaying as gaping holes develop and susceptibility to false alarms grows. Budget shortages, among other problems, prevent Russia from dispersing submarines and mobile land rockets into the sanctuaries of the oceans and forests. The Russian navy struggles to keep one or two ballistic missile submarines out of a fleet of twenty-six at sea, and at times cannot even do that. The Strategic Rocket Forces strain to disperse out of garrison into covert field locations a single regiment (nine missiles) of mobile rockets, out of a total mobile force of 350. Russian bomber pilots receive only about 20 hours of flight training a year, compared with 200 or more hours for their U.S. counterparts. Underground command posts are crumbling. Even the famous nuclear suitcases that accompany the president and other top authorities are falling into disrepair. Prestigious institutes, such as the laboratories that design nuclear weapons, build the deep underground command posts, and engineer the communications links that would be used to send the "go code" to the strategic rockets, are virtually bankrupt. Like the conventional forces, Russia's nuclear units suffer from housing and food shortages, pay arrears, extended duty shifts owing to manpower shortages (massive draft evasion has depleted the enlisted ranks), and "moonlighting" to make ends meet. The competence and integrity of the generals who lead them have declined. They are demoralized and alienated from the state, which fails to support them, and the society, which no longer holds them in high esteem. They are themselves less impressive individuals owing to declining standards for admission to the higher military academies. Hardship and disaffection at all ranks, enlisted and officer corps alike, have sharply increased the rate of suicides, crime, and political activity (the latter illegal for active military personnel). Remarkably, cases of disobedience and protest have so far been rare (though the wives of nuclear officers often stage demonstrations, sometimes interfering with operational activities). To our knowledge, no one has yet vented frustration by threatening to use, or trying to use or steal, nuclear weapons. But conditions that might drive individuals or groups to violate nuclear safety rules or threaten to fire weapons are ripening. At the least, worsening conditions of life and work in the nuclear forces decrease proficiency in managing weapons and sap motivation to adhere strictly to safety rules.

## AT: Stuff

### AT: Dutch Disease

#### Putin won’t reform the economy, even if he has to – empirically, he’s too tied in

Schuman 7/5 (Michael Schuman, Asia and global economic issues as a correspondent for TIME in Hong Kong, master of international affairs from Columbia, “Why Vladimir Putin Needs Higher Oil Prices” 7/5/12 Time, http://business.time.com/2012/07/05/why-vladimir-putin-needs-higher-oil-prices/?iid=biz-main-mostpop1)

The only way out of the trap is to decrease Russia’s dependence on oil. That will require a much higher rate of investment, and especially private sector investment, to develop new industries and create better jobs. Improving the poor investment climate, however, will take a long list of reforms, which include fixing inefficient state enterprises, allowing greater competition, stopping the state from crowding out the private sector, and fighting widespread corruption. Putin himself has repeatedly advocated for just such reforms, as he did in a speech at the St Petersburg International Economic Forum in June: “We are well aware of serious long-term and medium-term challenges for our economy. The economy is still not properly diversified. Much of the added value is created in commodities sectors. There is a high proportion of non-competitive old plants and the level of Russia’s dependence on oil prices remains high. We must reduce the dangerously high [budget] deficit if oil revenues are not taken into account. This…is the Achilles’ heel of our economy…We understand very well that we must offer investors exclusive conditions to compete for these investments, so that the investors ultimately choose Russia. This is why we feel creating an investment climate that is not just favorable, but truly better and more competitive, is a key issue in state policy…Today I want to reaffirm our principled position: the state will gradually withdraw from a variety of industries and assets…Unfortunately corruption is without exaggeration the biggest threat to our development. The risks are even worse than the fluctuation of oil prices.” Yet Putin and his political allies have said all this stuff before, and little has changed. Achieving Putin’s stated goals will require drastic changes in the Putin state, changes he has so far shown little willingness to make. He may have to, though. In a June 21 report, Capital Economics forecast growth would slow sharply, to 3.8% in 2012 and as low as 2.5% in 2013, from the 4.3% achieved in 2011. Without reform, the fate of Putin’s economy — and his legacy — will rest on the unpredictable swings in commodities markets.

# Aff Stuff and Answers

## Backstopping

### No Link

#### This is old news – North American production is largest outside of OPEC and growing, they can hold off OPEC backlash in the future

Habiby, Margot, 6/16/2011, “IEA Says North American Oil Output Growth Strongest Outside OPEC”

North America will become the fastest growing oil-producing region outside OPEC during the next five years, with output estimated to jump 11 percent, according to the International Energy Agency. The region is likely to see output climb 1.5 million barrels a day to 15.6 million by 2016 mostly because of increased output from Canadian oil sands and U.S. onshore shale formations, the Paris-based adviser to oil-consuming nations said today in its Medium-Term Oil and Gas Markets report. Exxon Mobil Corp. (XOM)’s Canadian unit is investing C$10 billion ($10.2 billion) on the Kearl oil sands project in Canada, and companies including EOG Resources Inc. (EOG), Chesapeake Energy Corp. (CHK) and SandRidge Energy Inc. (SD) have committed about $1 billion each in the past two years to produce oil from U.S. geological formations such as the Bakken Shale in North Dakota. “North America is now seen as the strongest-growing non- OPEC region,” the report said, citing “upward revisions to U.S. onshore crude from tight oil formations” and higher projections from Canadian natural gas liquids and oil sands. Total production from Canada was forecast to rise by 1.3 million barrels a day to 4.7 million. In the IEA’s last medium-term outlook in December, the largest downward revision to production outside the Organization of Petroleum Exporting Countries came from the Canadian oil sands. The Dec. 10 report cut almost 400,000 barrels a day from previously forecast output saying “a degree of slippage is evident.” Today’s report says projections “are seen higher.” U.S. Production The IEA also said U.S. production is forecast to grow a “healthy” 500,000 barrels a day to 8.3 million barrels a day by 2016. U.S. production of “light tight” oil, also known as shale oil, is likely to grow by 1 million barrels a day to 1.36 million by 2016 from estimated output of 370,000 barrels a day in 2010, the report said. U.S. shale formations such as the Bakken, Eagle Ford in Texas and Marcellus in Pennsylvania require a mix of horizontal drilling and hydraulic fracturing to produce oil and natural gas from dense rock formations. Rising output from shale formations may trim U.S. imports of low-sulfur crude oil by 500,000 barrels a day within five years as new pipelines carry the oil to refineries along the Gulf of Mexico, according to a study released yesterday by analysts at Purvin & Gertz Inc. Shale production should rise to about 900,000 barrels a day by 2015 and to more than 1.3 million barrels a day by 2020, displacing imports, Geoff Houlton, a vice president at the Houston-based energy company, said yesterday in an interview. The IEA also said Mexican production would be slightly higher than previously forecast, though it’s still estimated to decline by 400,000 barrels a day to 2.6 million by 2016 because “Mexico so far lacks substantial new projects in the pipeline to boost production.”

#### Saudi Arabia can’t drive oil prices anymore – market power significantly diminished

Leverett and Leverett, 05/07/11, Hillary Mann and Flynt, Monthy Review Foundation authors, “Oil and the Iranian-Saudi "Cold War"”

First, Saudi Arabia does not have as much "market power" in the oil market today as it used to. Without doubt, the Kingdom retains the ability to defend a floor price for crude oil. But its ability to drive down prices -- which is what the United States and other major oil consumers really care about -- is significantly diminished. With regard to the immediate challenge -- replacing production lost as a result of the Obama Administration's ill-considered, European- and Saudi-backed military misadventure in Libya -- the IEA's executive director remains publicly confident that the Kingdom will increase its production, even after the Agency's decision to release stockpiled oil. But, following the IEA announcement, a survey of oil market analysts by Bloomberg found that most think Saudi Arabia will only increase its oil production to around 9.5 million bpd, not 10 million. Notwithstanding Turki's comments about Saudi Arabia's ability to replace all of Iran's current oil production -- and his description of the Kingdom's current surplus capacity is consistent with estimates by industry experts -- it would seem, in the end, that Riyadh is not really prepared to use that capacity to replace all of the lost Libyan production. This brings us to our second point: It is not clear why any rational market actor would choose, voluntarily, to rely on Saudi Arabia to make up for the volumes that Iran currently puts onto the international oil market. But this is precisely what Dennis Ross and Obama Administration colleagues who seem just as clueless as he about oil market realities want China and other important oil importers to do. We cannot imagine that China will willingly go along with such a scheme. Third, Iran's ability to cooperate with Iraq on issues pertaining to OPEC production quotas suggests that scenarios positing increasingly intense disagreements between Tehran and Baghdad over oil production are not grounded in reality. Looking ahead, we expect that post-Saddam Iraq will continue to have much more in common with the Islamic Republic -- on oil issues as on other matters -- than with Saudi Arabia.

## Russia

### Not Unique

#### Not Unique – oil prices are going to decline and crank Russia’s economy in the status quo

RIA Novosti 6/26. RIA Novosti News Agency. June 26, 2012. http://en.ria.ru/business/20120626/174246578.html.-JS.

The fall in world oil prices is the beginning of a major shift in the global economy and the end of the "commodity supercycle," spelling trouble for raw material producer countries like Russia, a senior US banker said late on Monday. “In general, when prices reach the point that spending on oil equals six percent of gross domestic product, demand falls and growth starts to stall; the world economy hit that point just before the recent fall in commodity prices,” Ruchir Sharma, head of emerging markets at Morgan Stanley Investment Management, wrote in an article published in The Financial Times. Now the commodity bubble is expected to implode, world oil prices will fall, while world economic growth will accelerate, Sharma says. This process will last about twenty years, and then usher in a new decade of expensive oil. “The mania for oil bore striking similarities to the dotcom mania of the late 1990s," Sharma says. "At the height of the dotcom bubble, tech stocks comprised 25 per cent of global markets. After the bust, commodity stocks – energy and materials – rose to replace tech stocks and, by the end of the last decade, accounted for 25 per cent of global markets too.” The commodity mania gave rise to a new industry of investment funds that allow even ordinary people to trade in commodities. The total sum invested in commodity funds has more than doubled over the past five years to more than $400bn in 2011. “The daily volume of trades in energy futures is now a staggering 25 times higher than daily global demand for energy. Speculators rule the markets, and many are suffering as prices fall. Their loss is a gain for consumers around the world.” “The commodity bubble has had a larger impact than the dotcom boom. While rising stock prices generally boost the economy, high prices for staples such as oil impose costs on businesses and consumers, and act as a drag on the economy,” Sharma's report concludes.

#### Russian oil collapse is inevitable – their economy is structurally unsound

Forbes 12. Kenneth Rapoza covers covering all aspects of the country for Dow Jones, Wall Street Journal and Barron's. Forbes News. April 3, 2012. <http://www.forbes.com/sites/kenrapoza/2012/04/03/oil-a-problem-for-russian-economy-official-says/.-JS>.

Russia, awash in oil and natural gas. It’s the reason why the economy has a budget surplus, and for some it is the reason why Vladimir Putin and United Russia are still in power. Follow the rising price of oil over the last seven years and you will see the rising GDP of the Russian economy right along with it. It’s national icon, Gazprom, is a multi-billion dollar, football sponsoring natural gas behemoth. The biggest in the world. And companies like it, from Rosneft to the privately held Lukoil oil are bad news for the Russians in the not-so-distant future. Combined they and others in the oil and gas biz account for 75% of Russia’s exports. “Economic growth will promptly fall to two or three percent a year in case of further dominance of the raw materials and fuel sector in the economy as it is now,” Russian Development Minister Elvira Nabiullina told a forum in Moscow on Tuesday. The country’s economic development may get stuck at the level of Japan she warned, something no decent developing nation would wish on their worst enemy. Japan is lucky if it grows 1% a year on average over the course of a five year stretch. Russia’s economy grew 4.3% last year, and is forecast by the government to grow at 3.7% if Urals oil price averages are $100 per barrel. She warned that a fall in GDP growth rates by 0.7-1.7% will cause “a rapid loss of (Russia’s) share of the global market and, what is most important, will reduce opportunities for increasing incomes and living standards.” As an investment story, Russia is known as an oil and gas play. Like the country or not, where oil goes, Russia’s economy will go right along with it. That’s great when Brent crude and its accompanying cheaper oil, Urals, is well over $80 a barrel. High oil prices is helping finance the new skyline of Moscow. Across from the Moscow River, near where Stalin built his great architectural works in honor of the Russian peoples’ success in World War II, are shiny silver and gold skyscrapers with Sberbank and VTB Capital logos on them. Moscow wants to be a mini-Frankfurt. Better yet, bigger than Frankfurt. It wants to be one of the biggest financial markets in the emerging world. Brazil and China have it beat. Russia’s one trick pony economy is why. Last October, Alexei Kudrin, then Finance Minister of Russia, said that the economy would be okay if Urals priced at $60. Below that and you get budget deficits and credit contraction. That’s no way to build for the future, especially in Moscow, which at first glance is aching to modernize and doing so as fast as Russia can. Russia might not have to worry about oil prices this year, and maybe not even next year. But Russia will be around for many years after that and oil prices are not expected to rise forever. At some point, China growth will stabilize. That is actually happening now. India will stabilize. Europe will continue its move away from oil, as will the U.S. It’s demand will stabilize. That might not be the case for another five to 10 years, but Russia will still be on God’s green Earth and if the good Minister is correct in her assessment, and everyone who watches Russia closely knows she is, then Russia will be in for a long, cold winter despite its collection of cheap Gazprom gas. It’s not that Russia doesn’t have the brain power to get over its oil addiction. The government is investing millions in backing start-up entrepreneurs out of the newly created Skolkovo Iniative, a mini-Silicon Valley, or so it hopes, in the suburbs of Москва (that’s Moscow). It’s got the brain power and the tech talents to build a more innovative economy, but moves to do so are still in their infancy. Only very recently has Russian venture capital started to discover Russian entrepreneurs. Only recently have Russia’s biggest funds like Troika Dialog tried to tap the rich U.S. market to convince American institutional investors that Russian financial markets are worth investing in. Last year, one of the biggest IPOs in the U.S. was a Russian search engine called Yandex (YNDX). One of the world’s leading internet security companies is based in Moscow, run by Formula-1 sponsoring, Hawaiian shirt wearing, Stuxnet busting Eugene Kaspersky and his Kaspersky Lab team. Russian has the know-how and probably the political will if one can trust what Putin has said on the matter, to reform and innovate the Russian economy. As it is, preservation of the oil and gas model is an inhibitor to Russian growth in the next few years. Nabiullina agrees.