# Oil DA – Classic CDT 2012

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## 1NC – Russian Oil

#### Oil prices will be high now - demand is up

Rapier 6/11/12 (Robert, Chief Technology Officer and Executive Vice President for Merica International, chemical engineer, worked on cellulosic ethanol, butanol production, oil refining, natural gas production, and gas-to-liquids, “Future Direction of Oil Prices May See a Major Shift”, 6/28/12, Consumer Energy Report, <http://www.consumerenergyreport.com/2012/06/11/future-direction-of-oil-prices-may-see-a-major-shift/>) ALT

There are a number of factors working in the opposite direction to raise oil prices. The most important factor there is near insatiable demand for oil by developing countries — even in the face of $100 oil. However, those developing countries consume a lot of oil to supply goods to developed countries, and the belt-tightening going on will reduce demand for those goods. Recent reports indicate that China’s growth is slowing. On the other hand, China is still growing, so unless they rapidly improve their GDP efficiency, their oil consumption will continue to rise, albeit more slowly than in recent years. The other major factor that will work to keep oil prices propped up is OPEC’s desire for high oil prices. Regardless of the growth in oil production outside of OPEC, they can cut production to compensate. A number of OPEC members have indicated that they are happy with oil at $100/bbl, and they have gotten accustomed to the revenues provided by high oil prices. Put all of those factors together, and I believe that oil prices will remain high, but that 2013 could see a lower average price than we saw in 2008. The price for 2012 will almost certainly be above the $72.34 from 2007, but 2013 may not average the $99.48 seen in 2008. Further, I think it is unlikely that we will see prices spike as high in 2013 as we saw in 2008 when WTI spiked to nearly $150/bbl (barring of course major events like war with Iran or widespread unrest in Saudi Arabia).

#### US transportation sector is key to world oil prices

Behrens & Glover 12[Carl E. Specialist in Energy Policy & Carol, Information Research Specialist at the Congressional Research Service, April 11, http://www.fas.org/sgp/crs/misc/R40187.pdf, JP]

The historical trends show petroleum as the major source of energy, rising from about 38% in 1950 to 45% in 1975, then declining to about 40% in response to the energy crisis of the 1970s. Significantly, the transportation sector continues to be almost completely dependent on petroleum, mostly gasoline. The importance of this dependence on the volatile world oil market was revealed over the past five years as perceptions of impending inability of the industry to meet increasing world demand led to three years of steady increases in the prices of oil and gasoline. With the downturn in the world economy and a consequent decline in consumption, prices collapsed, but then recovered to a much higher level than in the 1990s. With the crisis in Libya in the Spring of 2011, oil and gasoline prices began again to approach their former peak levels. By 2012, Libyan production had recovered, but a new crisis involving Iran further threatened supply.

#### And Saudi Arabia will flood markets with cheap oil if it perceives a move towards oil independence – tanks other producers

Taqui ’11 [Dr. Jassim Taqui: Founder and Director General for the Al-Bab Institute for Strategic Studies, physical chemist, linguist and security analyst. http://pakobserver.net/detailnews.asp?id=101173]

Islamabad—Saudi Arabia has emerged as an international player and a savior by insisting on increasing the oil production to bring down the oil prices. It is supported by the State of Kuwait, United Arab Emirates and the State of Qatar. Prince Turki Al-Faisal has stated that Saudi Arabia can flood the international market with oil to bring down the prices. Saudi Arabia has the capacity to achieve this feat. It has a spare production capacity of 4 million barrels per day. It is the world leading oil producer and can achieve what it promises. It has also the financial resources to further expand oil production at a fairly quick time. The decision has already been taken. This decision is expected to be enhanced when Kuwait, UAE and Qatar would follow suit as per a tacit agreement between the four oil producing countries. With huge quantities of oil are floated in international market, other oil producing nations would be compelled to reduce oil prices so as not to lose their traditional markets.

#### High prices are key to Russian stability – econ collapses without it

Schuman 12-, B.A. in Asian history and political science from the University of Pennsylvania and a master of international affairs from Columbia (Micheal, “Why Vladimir Putin Needs Higher Oil Prices: As oil prices sink, so do the prospects for the Russian economy” 7/5/12, http://business.time.com/2012/07/05/why-vladimir-putin-needs-higher-oil-prices/)//CN

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

#### Russian Economic instability causes Nuclear War

Filger 2009 Staff at Huffington Sheldon May 10th “Russian Economy Faces Disastrous Free Fall Contraction” <http://www.globaleconomiccrisis.com/blog/archives/356>

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.

## Uniqueness – Prices High

### 2NC Prices High

#### Oil prices will stay high and Russia needs it – high prices key to break even

Zakaria 12 [Zakaria Fareed was a columnist for Newsweek and editor of Newsweek International. In 2010 he became editor-at-large of Time magazine. He is also the host of CNN's Fareed Zakaria GPS, and a frequent commentator and author about issues related to international relations, trade and American foreign policy.[1]1/15/12 http://globalpublicsquare.blogs.cnn.com/2012/01/15/zakaria-why-oil-prices-will-stay-high/

Now I think that the economic fundamentals really can't justify oil prices at their current levels. The real driver of high oil is not the stuff you find in the business section of the newspaper - the demand for oil in India and China. It's on the front page: Global politics. You see, traders worry about risk. And the biggest risk to oil supplies is the threat of war in the Persian Gulf. Meanwhile, in Nigeria mass protests are raising worries about the supply of fuel from there. Venezuela is in a slow-motion collapse because of Hugo Chavez's mismanagement. There have also been protests in Russia, the world's top oil producer. And remember the fallout of the Arab Spring - Libya's oil production in 2011 was severely curtailed. Iraq continues to disappoint with its oil output and its recent political tensions certainly haven't made things any better. So a mix of war rhetoric and local troubles in key oil states are factors driving up the price of crude. And that translates to higher prices at the pump. Now that logic suggests that prices will fall when the news calms down. But perhaps not. Perhaps oil producers want these sky high prices. Usually the major oil producers understand that keeping prices too high in the short term means people start finding alternatives to oil. They start driving more efficiently; they start looking for alternate energies. But this time, oil states face crucial challenges. Look closer at the Arab Spring. The only oil rich country that has been forced into regime change is Libya. Why? The Gulf states lavish subsidies and salary increases on their citizens. They've upped spending to record levels to suppress any popular discontent. I saw some striking numbers this week: Look at the "break-even" costs for the world's top oil producers. That is the minimum price at which these countries need to sell oil so that they can balance their budgets. Russia now needs oil at $110 a barrel to manage its finances. For Iraq, the number is $100. Even Saudi Arabia now needs oil to trade around $80 a barrel just to balance its budgets. The numbers are also high for Algeria, Qatar, and Oman. Only a decade ago Saudi Arabia was able to balance its budget with oil prices averaging around $25 a barrel. So now it is in these countries' interest to keep oil prices high, which they do by curtailing supply in one way or the other. This is perhaps the most lasting impact of the year of global protest: High oil prices. So, the bottom line is an oil crash seems unlikely. Even though the engines of global growth are sputtering, be prepared for a period of expensive commutes. Maybe it's time to trade in your Escalade for a Prius.

#### Will stay expensive – emerging market demand, global growth, OPEC break-even demands

Atuanya 12 [Dennis U. Atuanya Oil and energy analyst. Consultant geologist and geophysicist with about 3 decades of activity in the energy sector (from exploration and production through downstream and marketing services to geopolitical and policy issues April 21 2011 http://seekingalpha.com/article/264772-3-reasons-why-crude-oil-prices-will-stay-high

Though there may be dips or corrections, crude oil prices would probably remain high and for three reasons: First, emerging market demand has been a strong driver for oil prices in recent years and even when the economies of China and India declined in 2009, for example, their total petroleum consumption increased. Oil demand in many of the emerging economies is driven, in the main, by subsidies, which, given their rather low socio-political flashpoints, may not be removed anytime soon; and that raises fears of inflation. China, in an attempt to curb inflation, recently increased banks' reserve ratios by 50 basis points to 20.5% but only allowed domestic fuel prices to rise by a smaller rate (5%) than the rate of increase (14%) for its reference crude oil basket. These may not translate to any significant reduction in the country's oil consumption though the longer-term sustainability of these subsidies remains to be determined. In spite of rising oil prices, the Asian Development Bank expects a growth in the region's economy, of 7.8% and 7.7% for 2011 and 2012 respectively. According to Financial Times, while European crude oil demand for February was largely flat, that for Asia was up 5.9% (China's up 9.6%) and that for the U.S. up 2.9% (possibly rising higher in the summer or driving months). Secondly, despite pockets of problem zones, the global economy is seemingly set for growth, and with it crude oil demand, even if in the medium-term. The International Monetary Fund, IMF, in a recent report for example, expected global economic growth for 2011 to be 4.4%. In addition, the Organization for Economic Co-operation and Development estimated the annualized 1H'11 growth rate for its G7 member-countries (exclusive of Japan) to be 3%. However, a major oil price shock, especially if sustained, would most probably end all such growth prospects. Current crude oil price levels inevitably draw comparisons with the record values of 2008. Energy Information Administration data show that in 2008, average prices for Brent and West Texas Intermediate (WTI) crude oil grades were US$96.94 per barrel and US$99.64 per barrel respectively; for 1Q'11, the values were US$104.96 for Brent and US$93.54 for WTI. Finally, quite a few members of the group, Organization of the Petroleum Exporting Countries, OPEC, have embarked on various elaborate short- to medium-term projects which require certain oil price levels to break even. Estimates for these levels range from US$79 per barrel to US$92 per barrel and would be significant factors in setting target crude oil prices. This is compounded by the group's rising domestic oil consumption profiles which, if sustained, would amount to between 35% and 40% of its total production in a little more than a decade. The consequent reduction in available export volumes would further tighten global supply, putting upward pressures on prices.

#### 3 scenarios for oil prices to increase again- Saudi production cap, Iran embargos, or Fed quantitative easing plan.

Cohen 6/27/12 (Lior, MA graduate in Economics “3 Scenarios That Will Bring Oil Prices Back Up”, 6/27/12, Seeking Alpha Investment Consulting, http://seekingalpha.com/article/687741-3-scenarios-that-will-bring-oil-prices-back-up)

Let examine what could bring oil prices back up: Saudi Arabia cutting its oil production quota: It was agreed in the recent OPEC meeting to keep oil production at 30 million bbl/day. OPEC's current oil production is above the agreed upon ceiling. This is mostly due to the rise in Saudi Arabia's oil production during 2011 and 2012. If Saudi Arabia will decide to start cutting its oil production in order to maintain OPEC's oil production ceiling it could tighten the oil market which could lead to another price hike. A rise in the tensions between Iran and U.S.: Tomorrow President Obama will be able to enforce sanctions on countries that will trade with Iran. The sanctions on Iran could end up adversely affecting the oil market. At this stage major oil importers such as China and Japan are excluded from enforcing these sanctions on Iran therefore the status quo is likely to remain (at least for now). But if there will be deterioration in the relations between Iran and U.S it could pressure oil back up. Fed issuing another quantitative easing plan: Following the recent FOMC meeting in which it was decided to extend operation twist throughout the rest of 2012, there are still those who bet the Fed will issue another QE program this year. I'm not convinced this scenario will occur but if so it could pull down the USD and pressure up commodities prices including oil price. If one or more of the above mentioned scenarios surface it could push back up oil prices to the 90s and perhaps even into the 100s. The price of oil is strongly correlated with the above mentioned stocks - Chevron Corporation and Exxon Mobil Corporation . During 2012 the linear correlation between Exxon's stock and oil price (daily percent change) was 0.54; for Chevron the correlation was 0.62. This means (assuming all things equal), if oil prices were to increase it could push up these stocks prices. In particular (assuming linearity, and normality) for every 1%, growth in oil price, the price of Chevron could to increase by 0.52% and Exxon by an average of 0.37%.

#### And, 2 of these scenarios now happening- China joins US in Iran embargo, Saudi Arabia promises less production.

The Economist 7/7/12 (“Oil Prices: Rollercoaster. Another Leap. Where Next?”, 7/7/12, originally in print version of The Economist, http://www.economist.com/node/21558310)

First, demand remains surprisingly perky even though Europe’s consumption dropped by over half a million barrels a day (b/d) in the first three months of the year. Japan’s thirst grew by 400,000 b/d (to generate electricity that nuclear power no longer supplies); Americans put more petrol in their tanks in April than they did a year ago, the first such increase for 16 months; and Chinese demand, despite a sluggish May, has grown by 2.6% in the first five months of the year compared with the same period in 2011. Demand is expected to strengthen in the second half of the year as a seasonal boost is buttressed by a recovery in China and the resumption of deferred infrastructure spending there. Most analysts reckon that worldwide consumption is set to grow by around 1m b/d in 2012. Second, the supply picture is looking less promising. Iranian sanctions could take more than expected out of the market—perhaps as much 1.4m b/d. The Chinese, hitherto regarded as likely to mop up the Iranian oil that no one else would buy, have joined other countries in promising to reduce imports in return for a waiver on sanctions from America. Countries like China will be obliged to take even less Iranian oil over time to continue to avoid American attention. Meanwhile, European action against Iran means that oil tankers insured by companies operating in the EU—as are nine out of ten vessels in the global fleet—and carrying Iranian oil will lose their coverage if they continue. There are signs, too, that Saudi Arabia has stanched the flow of oil a little of late, in order to prop up prices. The country’s oil minister, Ali Naimi, has said that $100 a barrel is fair. The Saudis are reckoned to need $80-85 a barrel to maintain a programme of lavish social spending designed to avoid an “Arab spring” in the kingdom. Iran, Iraq, Algeria and Venezuela rely on an oil price above $100 to keep spending on track and want the Saudis to cut production more. That they are unlikely to get their way should help to temper the market’s mood swings for a while.

#### Oil prices rebounded and will continue to grow- trouble with Iran, plus stimulus from EU and US solves.

Kahn 7/4/12 (Chris, AP staff writer, “New Friction With Iran Jacks Up Oil Prices”, Arizona Daily Star, http://azstarnet.com/business/local/new-friction-with-iran-jacks-up-oil-prices/article\_0216c597-22f3-5646-8898-403f8d197609.html)

Renewed tensions between Iran and the West pushed oil to 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, Wednesday 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. Arizona's average is $3.41 per gallon, according to AAA Arizona's survey. Experts say pump prices will range nationally between $3.30 and $3.50 through Labor Day. An increase in U.S. factory orders from April to May (see Business Briefs, this page) 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 price increasing steadily- company control and Norway lockout failure.

Flores 7/11/12 (Alena Mae Flores, staff writer, “Hefty oil price hikes slammed”, 7/11/12, Manila Standard Today (Pilipino Newspaper), <http://manilastandardtoday.com/www2/2012/07/11/hefty-oil-price-hikes-slammed/>) ALT

The oil companies on Tuesday announced price increases of as much as P1.80 per liter of gasoline to reverse the continuing decline in pump prices in the past 13 weeks. Fill ‘er up. An attendant pumps gas into a car. As a result, the transport groups slammed the upward adjustments that wiped out the price rollbacks that had totaled P10.85 per liter of premium and unleaded gasoline, P11.60 per liter of regular gasoline, and P8.90 per liter of diesel. “We will go to the streets again to show our disgust to the deregulated oil industry,” said George San Mateo, president of the transport group Piston comprising jeepney drivers and operators. In separate advisories to motorists, Total, Shell, Petron, Chevron and Unioil said the new prices took effect at 6 a.m. on Tuesday and as follows: premium gasoline from a range of P50.67 to P55.67, unleaded gasoline from a range of P45.70 to P53.91, and regular gasoline from a range of P44.35 to P53.85. “The new prices reflect the movements in the international oil market,” said Abigail Ho of Seaoil. World oil prices surged as Norway, Europe’s top oil producer, announced an industry lockout that failed to end a prolonged strike at the oil giant Statoil. The lockout affected production on Norway’s continental shelf, where about 50 companies operate. Oil prices also inched higher as traders bought cheap crude following a price plunge late last week because of fears the US economy, the world’s largest oil consumer, was faltering.

#### Moody’s US benchmark prediction show staibility in prices through at least mid 2013.

Berman 6/28/12 (David Berman, written Canadian Business and MoneySense, worked at the Financial Post as an investing writer and daily columnist, “Moody’s: The Oil Price Boom is Fading”, 6/28/12, The Globe and Mail, <http://www.theglobeandmail.com/globe-investor/markets/market-blog/moodys-the-oil-price-boom-is-fading/article4376785/>) ALT

Moody’s also lowered its crude oil price assumption to $90 (U.S.) a barrel for 2012, and to $85 a barrel for 2013. These prices are for West Texas Intermediate, which is the U.S. benchmark. It also lowered its price assumptions for Brent crude, which is the North Sea benchmark. The moves follow what has been a dismal period for the energy sector, with the price of oil tumbling 26 per cent since the start of May. Canadian energy stocks within the S&P/TSX composite index have followed: The sector is down 13 per cent this year and 20 per cent over the past year. For Moody’s, the dismal economic backdrop is key here: “The sovereign debt crisis in Europe has begun to threaten the continent’s banking sector, and we foresee weak growth in the U.S. and a slowdown in China that has alarmed central bank authorities there.” While Moody’s doesn’t seen an energy rebound in the works, at least it doesn’t see further deterioration either. That’s why it is taking a “stable” outlook, with earnings (before accounting for interest, taxes, depreciation and amortization) among exploration and production firms expected to rise by mid-to-high single digits through mid-2013.

#### Oil prices high- summer driving increases demand.

Bacque 7/10/12 (Peter, 33rd year covering energy, transportation and travel for the Richmond Times-Dispatch “Gas prices trend higher, just in time for summer travel”, 7/10/12, Richmond Times-Dispatch, <http://www2.timesdispatch.com/business/local-news/2012/jul/10/tdmain01-gasoline-prices-trending-higher-ar-2045239/>) ALT

Gasoline prices have started trending higher and will likely continue increasing through the end of the summer driving season. "You can anticipate prices increasing through Labor Day," said Windy VanCuren with AAA Mid-Atlantic, though "we're not anticipating the record highs." In the Richmond region, a gallon of self-serve regular gasoline jumped 5 cents over the weekend, selling on average for $3.23 Monday compared with Friday, according to AAA. That was still 9 cents below the price a month ago and 25 cents below the cost a year ago. "I was surprised to see gas back up," Richmond businesswoman Suzanne Madison Hogg said Monday. The price matters to the organizational development and fundraising consultant: "I drive at least 50 miles a day, and travel in central Virginia and North Carolina for business." National gas prices ended a 78-day downward trend last week, after decreasing from an average of $3.91 per gallon on April 16 to $3.33 per gallon on July 3, according to the AAA travel group. "Gas is directly related to what the cost of crude (oil) is," said Michael J. O'Connor, president and chief executive officer of Virginia Petroleum, Convenience and Grocery Association. "It will take a few more days to see if this is a trend or an anomaly." The association represents about 600 member companies that own and operate the majority of the 4,700 stores in Virginia that sell gasoline and motor fuels to the public. For instance, the price of oil climbed about 2 percent Monday as striking Norwegian oil workers caused the industry to prepare for a shutdown in the North Sea. Benchmark U.S. crude rose $1.54 to $85.99 per barrel. "And we're in the middle of the summer driving season where demand is high," VanCuren noted.

#### Oil prices have recovered and now inch up.

The Australian 7/10/12 (“Oil prices edge up after big slump”, 7/10/12, <http://www.theaustralian.com.au/business/mining-energy/oil-prices-edge-up-after-big-slump/story-e6frg9df-1226422014462>); ALT

OIL prices inched up in Asian trade yesterday as traders bought up cheap crude following a price plunge late last week caused by disappointing US jobs figures. New York's main contract, West Texas Intermediate light sweet crude for delivery in August gained US38c to $US84.83 a barrel and Brent North Sea crude for August delivery rose US55c to $US98.74. "Oil is holding relatively steady; it has edged up a tiny bit," Victor Shum, senior principal for Purvin and Gertz energy consultants in Singapore said.

#### Impending “Saudi summer burn” and Iran embargo will reverse price drop.

Johnston 6/23/12 (Stephen, lawyer, student of the Austrian School of economics for over 30 years, “Oil price set to rise with Saudi summer oil burn and Iran embargo”, http://www.teapartyculturewar.com/\_blog/Tea\_Party\_Culture\_War\_Blog/post/Oil\_price\_set\_to\_rise\_with\_Saudi\_summer\_oil\_burn\_and\_Iran\_embargo/)

The Iran embargo and the normal Saudi summer oil burn are expected to remove 1.1 million barrels of crude oil from the world market. This is expected to reverse the world oil surplus to a negative. With a possible stabilization in European debt crisis, and a failure in the Iran nuclear negotiations in July, Goldman Sachs oil analysts believe the overdone sell- off in crude oil has created the potential of a strong rally, once fundamentals reassert themselves and hedge funds re-enter the market. If Iran breaks off negotiations in regards to its uranium enrichment, an increased threat of an Israeli pre-emptive attack on Iran’s nuclear facilities, will cause a return in the geo-political risk premium in crude oil prices.

### A2 EU Crisis = Low Prices

#### No impact to further EU crisis- OPEC production ceiling is inclusive.

Kramer 6/14/12 (Andrew, “Despite Price Drop, Oil Cartel Keeps Production Limit”, 6/14/12, New York Times, http://www.nytimes.com/2012/06/15/business/global/opec-is-said-to-leave-production-steady.html)

The cartel issued a statement late Thursday saying it expected supply and demand of oil in the world to remain balanced through the second half of the year, and so would leave its production ceiling unchanged. It said the weakening economy in Europe was a concern. Demand globally, though, was expected to grow slightly, offset by rising supply outside of OPEC. “The conference decided that member countries should adhere to the production ceiling,” the statement said. “Leaving the ceiling unchanged takes the issue off the table,” said Frank Verrastro, director of the energy and national security program and the Center for Strategic and International Studies, in a phone interview. “Doing nothing is easy.” The OPEC spigot on member countries’ output is the main instrument for controlling prices and wielding the cartel’s power.

#### Oil is rising despite slow growth

Roberts 12 [Kristal Roberts, Abc Action News, Prices stable, gas prices continue to climb, March 19, 12]

“TAMPA - While oil prices remain around $107 a barrel, gas prices have inched up 4 cents nationally to $3.83 and three cents in the state of Florida, to $3.82, according to a AAA release.

The slow economic growth in China, the second largest oil consumer in the world, in addition to the stronger U.S. dollar have kept oil prices stable for the last three weeks. "The fact that oil prices are showing some stability is a positive, but retail gas prices are still on the rise. Although the rate of increase has slowed, gas prices continue to steadily inch up week after week. Pump prices are still expected to increase well into spring as we approach the summer driving season," said Jessica Brady, AAA spokeswoman, The Auto Club Group. The threat of a supply disruption in Iran was eased following a report that there was an ample supply and President Obama’s discussing potentially tapping into the U.S. oil reserve.”

### Oil Dependence Key

#### IEA reports gas price steady- only oil independence changes demand.

Morris 7/10/12 (Sarah Morris, news editor at the Daily Leader, “At the Gas Pump”, 7/10/12, The Daily Leader, <http://www.stuttgartdailyleader.com/news/business/x236224315/At-the-gas-pump>) ALT

Regular gas prices are staying steady. The U.S. Energy Information Administration (EIA) reports that weekly retail gasoline prices have decreased two cents in the past month although Stuttgart residents will have to step outside the city limits to get the cheapest prices around. The cheapest price found Tuesday morning is $2.98 at Mapco in Sherwood. Arkansasgasprices.com reports that the highest price, $3.39, can be found at gas stations in Fayetteville, Bentonville, Waldron and Rogers. The state’s average price is $3.178. It’s the lowest price that can be found in Stuttgart. EZ-Mart on Buerkle Street offers regular gas at $3.17 per gallon while Dodge Store, EZ-Mart on South Main St. and Spirit on 22nd Street all offer gas at $3.19 per gallon. Jeremy Cleveland of Stuttgart said the prices are still too high. “They are (getting better), but still not where they should be,” he said. Competition in the local market place and transport costs are the two main factors in certain locations having higher gas prices than others, according to BP.com. A Dodge Store employee said they do not set prices locally while Chuck Freemyer with Cenex said he couldn’t release how they set prices since it was a trade secret. Why are gas prices so high? Shell.com says “the main reason is that demand is growing faster than supply. Rapid economic growth in Asia has virtually exhausted the world’s surplus production capacity. So prices have risen steeply for many commodities, including crude oil.” Production of oil and natural gas make up most of the profit, according to Shell, and a good chunk of the cost of a barrel goes to the country that produces the oil in the form of royalties and taxes. In January, the Consumer Energy Report used EIA data to break down retail gas price shares, which were $3.38 per gallon in January, to show where the money went. Seventy-six percent of the cost went to crude oil while 12 percent went to taxes, six percent to refining and six percent to distribution and marketing. It’s a significant change from February 2000 when a similar report broke down gas costs, then $1.38 per gallon, into 45 percent in crude oil, 30 percent in taxes, 18 percent in refining and seven percent in distribution and marketing. According to Shell, “demand will continue to grow, so lower prices depend on more supply and more choice in fuels.” Until then, EIA’s Short-Term Energy Outlook expects regular retail gas prices to average about $3.60 through September. Overall, regular gas prices are expected to average $3.56 per gallon in 2012 and lower to $3.51 per gallon in 2013. U.S. regular gas prices, as of Monday, increased .055 cents to $3.411 per gallon from July 2.

## Links

### Link – Generic

#### New transportation projects reduce oil dependence through efficiency

Krauss 11[Christopher, New York Times, in Energy: A Special Section, ‘Can We Do Without the Mideast?’ http://www.nytimes.com/2011/03/31/business/energy-environment/31FUEL.html?pagewanted=all, JP]

The problem the nation faces is easy to define: it’s the 19 million barrels of oil a day used by its cars, trucks and aircraft. Though the United States remains one of the largest oil producers in the world, it has been an importer since the late 1940s, with imports rising and domestic production declining fairly steadily year after year over the last quarter-century, until recently. But a shift in the last couple of years has received little attention. Oil imports have edged lower and domestic output has increased, enough so that the United States is no longer importing 60 percent of its oil, as it was the last time oil prices were spiking four years ago. There are several ways to replace those barrels, some of which have already been tried, with some success, in the United States and other countries. A decade of progress stretching from the early 1970s through the early 1980s is now mostly forgotten, but high oil prices drove two Republican and one Democratic administration to lower highway speeds to 55 miles an hour, divert federal funds from highways to mass transit, restrict the use of oil by utilities and oblige automakers to improve their efficiency standards.

#### More ev - Transportation systems reduce oil dependence

Department of the Treasury 12 [With the Council of Economic Advisors, ‘A New Economic Analysis of Infrastructure Investment, http://www.treasury.gov/resource-center/economic-policy/Documents/20120323InfrastructureReport.pdf, JP]

Finally, a well-maintained and robust network of transportation infrastructure, which allows individuals to access multiple modes of transportation, results in significant efficiency benefits for Americans. One study found that in 2009, households at the national median level of income residing in “location efficient” neighborhoods with diverse transportation choices realized over $600 in transportation cost savings, compared to similar households living in less efficient areas. Further, well-maintained roads with adequate capacity, coupled with access to public transit and other driving alternatives, can lower traffic congestion and accident rates which not only saves Americans time and money but also saves lives. Congestion is not limited only to our nation’s roads but also to our rails. Freight rail systems can play a vital role in relieving road traffic and in moving goods in a more fuel efficient manner. One study estimated that on average, freight railroads are four times more fuel efficient than trucks. These benefits can also reduce dependence on foreign oil, improve energy efficiency, and reduce air pollution. For example, one study in the Los Angeles area found that traffic congestion has a significant effect on CO2 emissions, and that reducing stop-and-go traffic conditions could potentially reduce emissions by up to 12 percent. Another study estimates that America’s public transportation system reduces gasoline consumption by 4.2 billion gallons annually.

#### Transportation sector heavily reliant on oil now

Sandalow 07 [David, Energy and Environment Scholar at The Brookings Institution, http://www.brookings.edu/views/papers/fellows/sandalow20070122.pdf, JP]

Plug-in hybrid engines, biofuels and other technologies can help end the United States’ oil dependence in a generation. Doing so would provide important national security, environmental and economic benefits. A broad political consensus and game-changing technological advances create the conditions for dramatic change. Previous efforts to address oil dependence have failed for lack of ambition. The widespread focus on oil imports has obscured a more fundamental problem – the near total reliance of our transportation sector on oil. Today several technologies offer the promise of disrupting oil’s deeply entrenched hold on the transportation fuels market, while lowering driving costs and improving environmental quality. Promoting the rapid adoption of these technologies should be a top national priority. To solve the problems created by oil dependence, drivers must have a choice between oil and other fuels.

#### Here’s statistical evidence – 95% of American transportation is dependent on oil

Totty & Swartz 09 [Journal Report in San Francisco and senior correspondent for Dow Jones Newswires, citing Rep. Roscoe G. Bartlett, Co-Founder and Co-Chairman, Defense Energy Working Group and Congressional Peak Oil Caucus, in the Wall Street Journal, http://online.wsj.com/article/SB122660968559325625.html, JP]

**DIAGNOSIS:** American transportation is more than 95% dependent upon oil, a proportion virtually unchanged since the 1973 Arab oil embargo. Americans will have spent $700 billion on oil imports in the last two years. That is more than we spend annually on defense. If that money stayed here, it would generate $7 trillion in economic activity. Clearly, lower oil prices are better for Americans and worse for the governments of OPEC countries, such as Saudi Arabia and Venezuela as well as Russia's military resurgence. If we reduce our dependence upon oil imports, we eliminate our greatest self-imposed threat to Americans' future economic prosperity and national security. Especially in the absence of price signals, we need leadership at all levels to inspire Americans to continue conserving oil and to innovate to shift our transportation and manufacturing sectors off oil.

### Link – HSR

#### High Speed Rail would reduce US oil consumption

Levi et al 10 [Michael, Senior Fellow for Energy and the Environment, Council on Foreign Relations Ian Parry Senior Fellow, Resources for the Future Anthony Perl Director, Urban Studies Program, Simon Fraser University Daniel Weiss Senior Fellow and Director of Climate Strategy, Center for American Progress, http://www.cfr.org/energyenvironment/reducing-us-oil-consumption/p22413, JP]

CFR's Senior Fellow Michael Levi says the United States could reduce consumption by both ending heating oil use and changing the mix of transportation options, such as "shifting to hybrid and plug-in-hybrid vehicles," but he notes consumption reductions won't necessarily translate into abandoning risky drilling projects.Ian Parry, a fellow at the environmental think tank Resources for the Future, argues that taxing all oil products would modestly reduce oil consumption, but predicts even with new taxes the United States will remain oil dependent. Anthony Perl, director for the Urban Studies Program at Canada's Simon Frasier University says more high-speed rail would help reduce consumption, but the pace at which it could be introduced would hinge on government's "capacity to plan and execute the needed infrastructure." Daniel J. Weiss, senior fellow and director of climate strategy for the Center for American Progress, encourages aggressive oil reform by Congress and the White House, including more safeguards for oil and gas production, increased vehicle efficiency, higher revenues for clean fuel, and accountability for oil companies.

#### High Speed rail significantly reduces reliance on Oil

**CAP 10** – Center for American Progress (“It's Easy Being Green: Rail Transport Picks Up Speed”, http://www.americanprogress.org/issues/2010/03/ebg\_032310.html)

These economic incentives for a mass U.S. network of high-speed rail trains, or HSR, along existing transportation corridors could create much-needed jobs, decrease our dependence on foreign oil and fossil fuels, and significantly reduce greenhouse gas emissions. The national implementation of HSR would create jobs in the planning, design, and construction of track and station infrastructure as well as the management, design, and manufacturing of high-speed trains. A study by the California High-Speed Rail Authority found that building their proposed HSR system—which would run from Los Angeles to San Francisco and voters OK’d in 2008—will create 150,000 construction jobs and 450,000 permanent jobs. Critics worry that HSR will encourage sprawl and have a significant impact on parks and wildlife refuges. Yet there have been no links established between existing HSR stations in France and Spain, for example, and an epidemic of suburban growth. In fact, sprawl could be a thing of the past if we take preventative measures to encourage urban density, enact antisprawl regulations, and make it convenient to travel to outlying HSR stations with plenty of garage parking. HSR systems would take advantage of existing transportation corridors to minimize intrusion onto protected nature reserves, decrease air pollution generated by internal combustion engines in cars, and reduce greenhouse gas emissions. The California HSR, for example, will remove 12 billion pounds of carbon dioxide per year by 2030 because it uses electricity generated from wind, solar, and other renewable resources. In addition, California’s HSR will save 12.7 million barrels of oil by 2030. Further, the Center for Clean Air Policy and the Center for Neighborhood Technology concluded in 2006 that a national HSR system could reduce the number of annual car trips by 29 million and annual plane flights by 500,000, saving 6 billion pounds of carbon dioxide emissions equal to removing 1 million cars from the road each year.

#### Even A small transition to High Speed rail significantly reduces dependence on Oil

**Vander Veen 10-**  Associate Editor (Chad, “High-Speed Rail Would Save Oil, Create Jobs, Study Finds”, http://www.govtech.com/technology/High-Speed-Rail-Would-Save.html)

A frank discussion about realities of high-speed rail's economics and viability was one of the high points of this week's Meeting of the Minds conference on sustainable cities this week. With billions in U.S. taxpayer dollars being spent on high-speed rail projects, panelists sought to sort out facts from fiction.

Stephen Robillard, vice president of High Speed Rail USA at Siemens AG -- which builds trains and light rails -- said that if 10 percent of drivers switch to high-speed rail ridership, the U.S. would save 550 million barrels of oil annually and that one high-speed railcar equates to taking 200 cars off the road.

### Link – Mass Transit

#### Mass transit improvements reduce oil dependency

Addison 12 – Reporter at CleantechBlog (John, “Record Public Transit Ridership Reduces U.S. Oil Dependency “, http://www.cleantechblog.com/2012/03/record-public-transit-ridership-reduces-u-s-oil-dependency.html)

The United States is reducing its dependency on oil as we now consuming 18.3 million barrels a day, down from our peak of 21 million barrels a few years ago. Record use of public transit is a major factor – less solo driving in gridlock and we use less oil. Other major factors, of course, include high gasoline prices and more fuel-efficient cars. Since 96 percent of our transportation is from oil refined into gasoline, diesel, and jet fuel, we will take all the help we can get. According to a report released today by the American Public Transportation Association (APTA), Americans took 10.4 billion trips on public transportation in 2011, the second highest annual ridership since 1957. Only ridership in 2008, when gas rose to more than $4 a gallon, surpassed last year’s ridership. With an increase of 2.3 percent over the 2010 ridership, this was the sixth year in a row that more than 10 billion trips were taken on public transportation systems nationwide. During 2011, vehicle miles of travel (VMTs) declined by 1.2 percent. A number of U.S. regions demonstrated leadership in improving bus and rail systems, often doing more with less. The best systems use rail as the backbone of the system integrated with more cost-effective bus.

#### Public Transit substantially reduces dependence on foreign oil

APTA No Date [American Public Transportation Association, http://www.lebanontransit.org/Documents/energy\_fact\_sheet.pdf, JP]

Public transportation reduces our dependence on foreign oil • Public transportation saves the U.S. the equivalent of 4.2 billion gallons of gasoline annually – more than three times the amount of gasoline refined from the oil we import from Kuwait. • Public transportation use saves the equivalent of 900,000 automobile fill-ups every day. • According to the most recent Texas Transportation Institute (TTI) report on congestion, individuals who live in areas served by public transportation save 398 million gallons of fuel annually. Public transportation gives individuals affordable, energy efficient choices • Individuals that use public transportation save an average of more than $9,000 every year – even more as the price of fuel rises. •Household residents living within the proximity of public transportation drive an average of 4,400 fewer miles annually compared to those with no access to public transportation. • The average household in which at least one member uses public transportation on a given day drives 16 fewer miles per day compared to a household that does not use public transportation. • Expanded public transit strategies coordinated with combining travel activity, land use development, and operational efficiencies are estimated to save as much as $112 billion as compared to annual savings in vehicle costs to consumers.

### Link - NIB

#### NIB causes Investment in Clean energy projects.

**Schwarzenegger, Rendell, and Bloomberg 10** – (Arnold, Ed, and Michael. “Put our money where our mouth is: Build better”, http://www.politico.com/news/stories/1010/43637\_Page2.html)

The president is correct to connect investment to performance, with a proposal to create a National Infrastructure Bank. That bank could finance large projects based on national standards and goals, allowing Washington to increase investments in big projects that cut across state lines. Washington could also use standards and competition to ensure new transportation spending decreases carbon pollution. This can help shift money from outmoded technology to new transit choices that clean our air, reduce U.S. foreign-oil dependence and ensure we are building a 21st-century infrastructure.

### Link – Short Sea Shipping

#### Short Sea shipping consumes less fuel and sways away from dependence on foreign oil

PNWA 05 [Pacific Northwest Waterways Association, Prepared for the Center for Economic Development Education and Research, provided by grants by the U.S. Department of Transportation and the Maritime Administration, ‘Columbia Snake River System and Oregon Coastal Cargo Ports Maritime Transportation System Studies,’ http://www.pnwa.net/ceder/Appendix%20C%20CEDER%20Short%20Sea%20Shipping.pdf, JP]

Short sea shipping is an innovative intermodal concept that substitutes water transportation for the more traditional surface modes of truck and rail. It can be used as a link in delivering cargo to and from international trade ports or it can be an all-water alternative for domestic movements. The purpose of this report is to identify public policy issues and market factors that affect the potential for successful short sea shipping within and to and from the Columbia Snake River System. Cargo transported over water typically moves at lower cost while consuming less fuel and emitting fewer airborne pollutants than rail or truck. The U.S. Maritime Administration reported the relative energy efficiencies of the three modes of transportation. In their study, one gallon of fuel could move one ton of cargo 59 miles by truck, 202 miles by rail or 514 miles by barge (Environmental Advantages of Inland Barge Transportation, Maritime Administration, U.S. Department of Transportation, August 1994). In Oregon, where triple trailers are permitted on selected roadways, the Oregon Department of Environmental Quality estimates that trucks can move one ton 163 miles using one gallon of fuel (Utilizing Inland Waterway, Coastal and Open Ocean Barging of Containerized Agricultural Products to Overcome Existing Service Deficiencies and Increased Transportation Costs, Draft Report, August, 2004) Similar relative fuel efficiencies have been reported in Europe. Air pollutants from tow boats on a ton-mile basis were shown to be 20-30 percent of the emissions from rail and five-to-fifteen percent of the emissions from trucks (Maritime Administration, August 1994). The opportunity to relieve congestion and reduce maintenance costs on highways and railways has focused even greater attention on waterborne alternatives. When external costs were added to the analysis, short sea shipping appeared much more attractive. Water transportation reduced infrastructure maintenance and repair costs, air pollution, congestion, noise, accidents and dependency on foreign oil.

### Link – Rail (general)

#### Both freight and passenger rail consume less.

IEA 09 (International Energy Agency, “TRANSPORT, ENERGY AND CO2”, December 2009, <http://www.iea.org/textbase/nppdf/free/2009/transport2009.pdf>) ALT

Estimates of recent average vehicle efficiencies by mode are shown in Figure 1.6, in grams of CO2 eq per tonne-km for freight modes and in GHG per passenger-km for passenger modes. The same pattern would emerge if the x-axis was in energy units rather than grams of CO2 . The figures reveal a wide range of values for each mode of transport, the range corresponding to the lower and higher boundary of the geographical zones considered in MoMo and the average value being shown as a vertical line. Some modes are generally more efficient than other modes: for example, rail is more efficient than air in both freight and passenger movement. But the most efficient mode can depend on the range of travel: for example, passenger air travel is generally less efficient than passenger LDV travel, except for over very long distances. These efficiency values can be heavily influenced by average loads or ridership. For example, buses in the United States have significantly higher CO2 emissions per passenger-km than those in most other parts of the world, where buses tend to be fuller.

### Link – Freight Rail

#### Shipping by freight rail decreases fuel consumption- more efficient and carries more freight than trucks.

(International Energy Agency, “TRANSPORT, ENERGY AND CO2”, December 2009, <http://www.iea.org/textbase/nppdf/free/2009/transport2009.pdf>) ALT

Despite moving more freight, rail uses far less energy than trucking because of its much higher average efficiency. Relative energy intensities are shown by region in Figure 6.4. The difference ranges significantly between regions, depending mainly on the types of goods moved. For example, in the Former Soviet Union large quantities of bulk raw materials are moved very long distances by rail at very low average energy intensities, whereas in OECD Europe much more rail freight comprises the transport of lighter, finished products. The difference in energy efficiencies has consequences both for the fuel used and for the CO2 emissions per tkm of freight moved. In regions where rail is electrified and electricity generation emits few GHGs, such as in the European Union, rail can offer very significant CO2 benefits over trucking. All regions could achieve large CO2 savings through a combined strategy to shift freight from road to rail, electrify their railways and decarbonise their power generation.

#### Trains make us less energy dependent- all inclusive Berkeley comparative study.

Leibenluiff 08 (Jacob, “Planes vs Trains vs Automobiles”, 11/25/12, Slate Magazine, <http://www.slate.com/articles/health_and_science/the_green_lantern/2008/11/trains_vs_planes_vs_automobiles.2.html>) ALT

To answer the question of how to best make your trip home, the Lantern calls your attention to a recent study conducted by Mikhail Chester and Arpad Horvath, researchers at the University of California-Berkeley. When we typically think of the environmental impact of driving, we focus on the energy and emissions associated with moving a car, say, 30 miles. In reality, that sort of analysis is incomplete: How the car is made, how the road is built, and even whether the roads have been salted because of ice all have some effect, too. And while those effects are spread out over many cars and many different trips, they still take a toll. When we start thinking about train travel, the infrastructure matters even more, since getting a rail line up and running requires enormous amounts of construction and manufacturing. Advertisement The UC-Berkeley analysis tries to get a more complete picture of how we travel by taking all these variables into account—down to the impact of planting grass on the side of the road. Chester and Horvath's data suggest that riding in the average train is a significantly greener choice than the average car or plane. For example, they find that Caltrain (a system similar to Amtrak, averaging 155 passengers per train) produces less than half as many greenhouse-gas emissions or particulate matter per passenger mile compared with driving a sedan (average passengers: 1.58). \* (The sedan comes out better when it comes to sulfur dioxide but much worse on volatile organic compounds.) And on Thanksgiving weekend, when trains are certain to be full and cars are likely to spend a long time idling in traffic, rail is easily a better option.

### Link – Passenger Rail

#### HSR reduces oil dependence.

Perl 11 (Dr. Anthony Perl is Professor of Urban Studies and Political Science at Simon Fraser University in Vancouver, British Columbia, Canada, where he directs the Urban Studies Program, “How green is high-speed rail?”, 11/19/11, <http://www.cnn.com/2011/11/18/world/how-green-is-hsr/index.html>) ALT

Any debate about the future of high-speed rail must consider where this mobility option fits into the 'big picture' of how transportation systems meet looming economic, energy and environmental challenges. In a world where 95% of motorized mobility is currently fueled by oil, high-speed rail offers a proven means of reducing dependence on this increasingly problematic energy source. This value of using proven electric propulsion technology should not be underestimated when both the time and money to deploy energy alternatives are in short supply.

#### HSR ends oil dependency- fueled on renewable sources.

USHER 12 (US High Speed Rail Association, “ ENERGY SECURITY”, January 2012, <http://www.ushsr.com/benefits/energysecurity.html>) ALT

A national high speed rail system ends our oil dependency quickly & permanently. Building an electrically-powered national high speed rail network across America is the single most powerful thing we can do to get the nation off oil and into a secure, sustainable form of mobility. A national network of high speed trains can be powered by a combination of renewable energy sources including wind, solar, geothermal, and ocean/tidal energy. As the world oil supply begins to peak and then irreversibly declines, prices will rise faster, and the situation will get far worse for America if we don't quickly reduce our national oil dependency. This dependency cuts across our entire society and affects our daily survival. Oil provides 95% of the energy to grow, process and deliver food to the nation. Our entire national transportation system is powered mostly by oil. Numerous daily products we use are made from oil. We use 20 million barrels of oil every day - just in America - 70% of it for transportation. Of the 20 million barrels we consume, we import 2/3 of this oil (13 million barrels per day) from foreign sources, many in unstable places. No combination of drilling off our coasts, hydrogen fuel cells, natural gas, biofuels, and used french fry oil will solve this and carry 300 million Americans into the future. None of these fuels can be scaled up to anywhere near the amount of liquid fuel we use daily in any practical, economical, or sustainable way.

### Link – Shipping

#### Shipping more efficient than both road and air.

(International Energy Agency, “TRANSPORT, ENERGY AND CO2”, December 2009, <http://www.iea.org/textbase/nppdf/free/2009/transport2009.pdf>) ALT

It is clear from this analysis that shipping is generally the most efficient way to move freight. Rail is the next most efficient mode. Road and air freight movements tend to be much more energy intensive. For passenger transport, rail, buses and twowheelers show similar levels of average efficiency, but efficiency levels range much more widely for buses and two-wheelers than for rail. Passenger LDV efficiencies range even more widely, reflecting the fact that different regions have very different vehicle types as well as significant differences in average load factors. Air travel shows a narrower range but on average emits more CO2 than any other mode.

### Link – Buses

#### Buses continue to use less and less fuel with investment.

(International Energy Agency, “TRANSPORT, ENERGY AND CO2”, December 2009, <http://www.iea.org/textbase/nppdf/free/2009/transport2009.pdf>) ALT

The fuel efficiency of buses appears generally to be improving, although new buses tend to be larger, with more powerful engines. Improvements in powertrains are likely to be the biggest source of further efficiency improvements. Light weighting can also play a role, along with better components such as tyres and more efficient air-conditioning systems. Aerodynamic improvements are also possible, although for urban buses that operate at fairly low speeds, this will play only a minor role. Although the boxy shape of most inter-city coaches could be improved, manufacturing costs and internal space optimisation seem to limit the potential for radical changes in body styles. Urban buses Nearly all large urban buses run on diesel fuel. Many urban buses are run by fleet operators with dedicated fuel stations and maintenance teams. Many operators have experimented with a variety of alternative fuels. Municipal bus operators often have strong public stakeholder involvement and are committed to using cleaner fuels and lowering emissions. As a result, fuels such as biodiesel, CNG, electricity and hydrogen are all in use in test or mainstream applications in bus systems around the world.

### Link – Trucks/Buses

#### Trucks and buses now have to be built super green- reduce oil consumption by over half a billion barrels.

Soos 11 (Andy, ENN staffwriter, “Truck, Bus Improved Efficiency”, 8/9/11, Environmental News Network, <http://www.enn.com/energy/article/43057>) ALT

Trucks and buses built in 2014 through 2018 will reduce oil consumption by a projected 530 million barrels and greenhouse gas (GHG) pollution by approximately 270 million metric tons. Like the administration’s historic car standards, this program — which relies heavily on off-the-shelf technologies — was developed in coordination with truck and engine manufacturers, fleet owners, the State of California, environmental groups and other stakeholders. The joint DOT/EPA program will include a range of targets which are specific to the diverse vehicle types and purposes. Vehicles are divided into three major categories: combination tractors (semi-trucks), heavy-duty pickup trucks and vans, and vocational vehicles (like transit buses and refuse trucks). Within each of those categories, even more specific targets are laid out based on the design and purpose of the vehicle. This flexible structure allows serious but achievable fuel efficiency improvement goals charted for each year and for each vehicle category and type. The standards are expected to yield an estimated $50 billion in net benefits over the life of model year 2014 to 2018 vehicles, and to result in significant long-terms savings for vehicle owners and operators. A semi-truck operator could pay for the technology upgrades in under a year and realize net savings of $73,000 through reduced fuel costs over the truck’s useful life. These cost saving standards will also reduce emissions of harmful air pollutants like particulate matter, which can lead to asthma, heart attacks and premature death.

### Link – Decreasing Congestion

#### Relieving congestion directly decreases fuel consumption.

Spalding 08 (Steven, Executive Manager Vehicle Technologies at RACQ, “RACQ Congested Roads Report: The Effects on Fuel Consumption and Vehicle Emissions”, May 2008, <http://dw.crackmypdf.com/0813899001342381097/congestion.pdf>) ALT

A vehicle’s fuel consumption is a consequence, in part, of its operating environment. Traffic density forms part of this environment, impacting levels of congestion and travel times. Denser traffic conditions result in increased fuel consumption and longer travel times. Fuel consumption, in terms of the quantity of fuel consumed, also affects the quantity of CO2 emissions from a vehicle. A vehicle with higher fuel consumption will emit correspondingly higher levels of CO2. With increased community awareness of CO2 emissions, reducing a vehicle’s fuel usage contributes to providing environmental benefits to society. Additionally, motorists benefit from lower overall fuel costs. Denser traffic conditions lead to lower overall vehicle speeds, increased journey times and higher vehicle operating costs. The negative effect congested roads has on the environment attracts attention from various sectors of the community and congestion in general remains an ongoing topical issue for many motorists and media commentary. While there would be widespread community acceptance that congested roads result in higher overall exhaust gas emissions from slow moving traffic, an accurate understanding of the impact such congestion has is less clear.

### Link – Keystone

#### Keystone is huge dent to importation of Middle East war, and drives down gas prices.

Hoeven 12 (John, senator from North Dakota and former governor of that state, “Why we need the Keystone oil pipeline”, 2/24/12, <http://www.cnn.com/2012/02/23/opinion/hoeven-keystone-pipeline-defense/index.html>) ALT

The Keystone XL pipeline represents a big step toward true North American energy independence, reducing our reliance on Middle Eastern oil and increasing our access to energy from our own nation and our closest ally, Canada, along with some oil from Mexico -- to 75% of our daily consumption, compared with 70% now. That decades-long goal for our country is finally within reach, but we need to stay focused on the big picture, and we need to act. This $7 billion, 1,700-mile, high-tech transcontinental pipeline is a big-time, private-sector job creator, and it will also hold down the gas prices for consumers and reduce our energy dependence on an unstable part of the world. Finally, it will do so with good environmental stewardship.

#### Keystone would greatly decrease energy dependence.

ALEC 11 (American Legislative Exchange Council, “ALEC Disapproves of President Obama’s Decision on Keystone XL Pipeline”, 1/18/11, <http://www.alec.org/2012/01/1437/>) ALT

ALEC’s resolution urges Congress to support continued and increased development and delivery of oil from Canada to the United States. ALEC believes the Keystone XL Pipeline project could “ensure America’s oil independence, improve our national security, reduce the cost of gasoline, create new jobs, and strengthen ties between the United States and Canada.” ALEC’s resolution also notes that the United States currently depends on foreign imports for more than half of its petroleum usage and the nation’s dependence on overseas oil has created difficult geopolitical relationships with potentially damaging consequences for our national security.

### Link – Air Traffic Control

#### The NextGen ATC saves 10-12% fuel – reduces oil dependence

Cohen 09 [Bennett, Research at the Rocky Mountain Institute, Rocky Mountain Institute is an independent, entrepreneurial, nonprofit think-and-do tank. Co-founded in 1982 who remains an active thought leader as Chairman and Chief Scientist, the Colorado-based organization now has approximately 75 full-time staff, an annual budget of nearly $12 million, and a global reputation, ‘Smart Planes Save Oil,” PDF, JP]

There is a way to achieve oil savings in the air without waiting for the airplane fleet to recapitalize: make airplanes smarter. Specifically, retrofitting existing airplanes to be compatible with next-generation air traffic control (NextGen ATC) can save 10-12 percent of aircraft fuel use by 2030. While new and improved methods of producing energy will play a critical role in reducing U.S. oil dependence and addressing other energy problems, opportunities to make systems smarter and logistically better can save considerable amounts of energy while creating many other benefits. Next-generation air traffic control demonstrates how improved information technology and decentralization can make systems more efficient while improving safety and capacity, and reducing cost. The implementation of “smart grid” technologies (bringing digital technology to the electric grid) is another opportunity to eliminate wasted energy, reduce costs, and increase reliability by making a system smarter.

### Link – Airports

#### More airports reduces oil consumption

**Dillingham, 08** - Director of Civil Aviation Issues at U.S. Government Accountability Office (Gerald, “Aviation and the Environment: Initial Voluntary Airport Low Emissions Program Projects Reduce Emissions, and FAA Plans to Assess the Program's Overall Performance as Participation Increases,” United States Government Accountability Office Monograph, Nov. 08, http://www.gao.gov/products/A84715)//CN

*\*VALE = Voluntary Airport Low Emissions*

While **the number of airports that have undertaken VALE projects is relatively small compared with the number of eligible airports**, **the number of participants in the program is increasing,** as are the range and scope of projects being conducted and the amount of money spent on them. **As of September 2008, 9 of the 160 airports that were eligible had or were planning to initiate a VALE project**, which is up from 2 participating airports in VALE's initial year of operation in 2005. FAA expects participation in VALE to increase as more airports become familiar with the program. Although FAA may be correct in its assumption about participation, officials GAO interviewed from 4 nonparticipating airports, and others, such as representatives of airport associations, indicated various reasons for airports not wanting to participate in **the program**, which **is funded through** the same sources of funds--**AIP grants** or PFCs--as other airport development projects. One reason is that some airports have a misperception that VALE projects compete with other projects, such as runways or terminals, for AIP funding. According to FAA officials, this is usually not the case because VALE projects are funded through a discretionary AIP **set-aside for noise and emission projects**. FAA officials want to increase FAA's outreach to airports regarding VALE, but noted that the regional staff who are responsible for outreach have limited time for this purpose. **VALE projects have ranged from airports' purchase of fuel-efficient vehicles to projects that help decrease aircraft ground emissions**. Expenditures for the VALE program have been nearly $20 million for 20 projects through fiscal year 2008 (with 56 percent of these expenditures occurring in fiscal year 2008). **All participating airports have used AIP grants to fund VALE projects for various reasons, mainly because their PFCs have already been committed for high-priority, large-scale terminal improvement projects that may not be eligible for any type of AIP grants**. FAA has yet to assess the outcomes and overall performance of the VALE program. However, **VALE projects are expected to reduce emissions at participating airports**, and two airports have taken advantage of the program to obtain emission credits for planned construction projects. According to FAA data, the VALE projects initiated to date will reduce emissions of such pollutants as nitrogen oxide and carbon monoxide **by over 5,700 tons estimated over the projects' lifetime,** which range from 10 to 40 years. According to FAA, the emission reductions resulting from VALE projects, although large in some cases, such as equipping gates with electricity and air conditioning outlets for aircraft, represent a small fraction of total emissions at participating airports. FAA plans to assess the overall performance of the VALE program as participation increases. FAA officials have begun developing cost-effectiveness measures, such as the amount of emission reductions per dollar spent. FAA officials stated that based on the number and size of VALE projects funded to date, they believe more history and experience with the program is needed before the agency develops other performance measures, such as setting goals for the number of VALE projects.

#### Tipping point coming, short term aviation emissions outweigh any other sources

Clark, 2012 - a consultant editor on the Guardian environment desk. He has written and edited a number of books on environmental and technology topics as well as working at BBC Worldwide (Duncan, “The surprisingly complex truth about planes and climate change “, The Guardian, September 9, 2010, http://www.guardian.co.uk/environment/blog/2010/sep/09/carbon-emissions-planes-shipping) // CN

We hear much about the environmental costs of air travel. As our recent Q&A explained, the problem is not just that planes burn a lot of fuel and therefore kick out plenty of CO2 per passenger. Just as important are a host of other high-altitude impacts, including vapour trails and ozone production, that are usually estimated to cause as much warming as the CO2 itself. Hence we often hear that although air travel accounts for only a small fraction of global emissions (relatively few people can afford to fly), one transatlantic flight can add as much to your carbon footprint as a typical year's worth of driving. Surely it couldn't get any worse, could it? Unfortunately for green-minded air travellers, it just did. Kind of. The wrinkle, always vaguely understood by climate geeks but finally explored in depth in a recent scientific paper, is that the relative impact of different types of travel depends not just on practical factors such as engine efficiency and occupancy rates, but also on something altogether more abstract: the time frame you care about. The reason this is so crucial is that the effects of different greenhouse gases play out in the atmosphere at a different speeds. CO2, released by all fuel-burning vehicles, can remain in the air for centuries, causing a gentle warming effect. By contrast, most other gases and impacts – such as the vapour trails and tropospheric ozone produced by planes at altitude – cause much more potent but shorter-lived bursts of warming. If you'll forgive an extension to the "frying the planet" metaphor, generating global warming with CO2 is equivalent to slow-cooking the earth in a cast-iron skillet, whereas cooking the planet with vapour trails would be more like flash-frying it in an extra-hot wok. In order to tot up these differently paced warming impacts into a single carbon footprint number for a flight or any other activity, it's necessary to decide what time frame you're talking about. Conventional wisdom is to add up the total warming impact of all the different greenhouse gases over the period of a century to create a nice, round but ultimately arbitrary number. If, by contrast, we shifted the focus to a much shorter time period – which arguably would make more sense, given that the next decade or so could turn out to be make-or-break in terms of avoiding climate tipping points – then the impact of vapour trails and other short-lived impacts look massively more significant. At risk of over-stretching the frying-pans analogy, the flash-fry wok may be more likely to cause a disastrous kitchen fire than the slow-cook skillet, even if they both use the same amount of heat overall. The new paper, published in the journal Environmental Science and Technology, finally pins some numbers on all this theory by examining the impact over different time periods of various different modes of transport. The results are illuminating. According to the paper, if we focus just on the impact over the next five years, then planes currently account for more global warming than all the cars on the world's roads – a stark reversal of the usual comparison. Per passenger mile, things are even more marked: flying turns out to be on average 50 times worse than driving in terms of a five-year warming impact.

#### ATA reduces oil consumption for airports. (Air traffic agreement)

**ALPA 10**— Collective bargaining representative for over 59,000 pilots of 39 U.S. and Canadian airlines (Air Line Pilots Association, International, July 2010, “Aviation Sustainability and the Environment”, ALPA White Paper, http://www.alpa.org/portals/alpa/pressroom/inthecockpit/AviationandtheEnvironmentWP\_7-2010.pdf)//CN

ICAO is looking at more stringent requirements to combat climate change. At a high-level ICAO meeting in October 2009, states representing 93 percent of global commercial air traffic reached agreement onthe following:further reducing aviation’s impact on the environment, in cooperation with the air transport industry, through such initiatives as a goal of 2 percent annual improvement in fuel efficiency globally until the year 2050; a global CO2 standard for aircraft; a framework formarket-based measures in international aviation; measures to assist developing states and to facilitate access to financial resources, technology transfer, and capacity building; and continued further work on the development and implementation of alternative fuels for aviation worldwide, which could lead to aviation being the first sector to use sustainable alternative fuels on a global basis.

### Link – Electric Cars

#### Electrification will reduce oil dependence, which subsequently reduces oil prices

MIT 10[Massachusetts Institute of Technology, ‘Electrification of the Transportation System, An MIT Energy Initiative Symposium, April 8, http://web.mit.edu/mitei/docs/reports/electrification-transportation-system.pdf, JP]

On April 8, 2010, the MIT Energy Initiative (MITEI) sponsored a symposium on: The electrification of the transportation system: issues and opportunities. The symposium was organized into four panels that addressed key issues: (1) Why vehicle electrification matters, (2) vehicle technologies, (3) infrastructure, and (4) policy options. Prepared and contributed papers informed panel discussions, and a rapporteurs’ report summarizing those discussions follows. All documents are available at http://web.mit.edu/mitei/. Symposium participants came from different backgrounds and expressed a wide range of views. Here we summarize for policy makers the key points that we drew from the lively discussions. The figures and table we have included in this summary are explained in greater detail in the subsequent sections of this report. The summary reflects our own observations and conclusions and is not offered as a consensus view. Why electrification matters. Currently, petroleum almost exclusively fuels the United States (US) transportation system, creating two major challenges: 1. The transportation sector represents a significant fraction of total greenhouse gas (GHG) emissions both globally and in the US — light-duty vehicles (LDVs) are responsible for 17.5% of carbon dioxide (CO2) emissions in the US. Absent a shift from internal combustion engine (ICE) vehicles, there will be a continuing increase in CO2 emissions from the transportation sector driven largely by the growth in the large, rapidly growing emerging economies such as China and India. Electrification will reduce emissions, with the scale determined by the carbon intensity of the power sector.2. Electrification will reduce oil dependence, providing foreign policy benefits and the potential to reduce real oil prices and oil price volatility. • Vehicle technologies. Alternative fuels, such as biofuels and electrification, are the two broad technology alternatives to petroleum-fueled ICE vehicles. Broadly, there are three different electric vehicle (EV) possibilities: 1. Hybrid Electric Vehicles (HEVs) have both an ICE and an electric motor for propulsion, which can be configured in either series or parallel configuration. The battery can be recharged by conversion of braking energy. HEVs are conventionally fueled. 2. Plug-in Hybrid Electric Vehicles (PHEVs) are HEVs in which the battery is rechargeable by external power sources. 3. Battery Electric Vehicles (BEVs) have only electric propulsion and a rechargeable battery pack.

### Link – Mass Transit

#### Current public transport proves- mass transit significantly reduces Middle East gas exports.

Bailey 07 (Linda, ICF International Vice President (management, technology, and policy consulting firm), “Public Transportation and Petroleum Savings in the U.S.: Reducing Dependence on Oil”, January 2007, <http://www.apta.com/resources/reportsandpublications/Documents/apta_public_transportation_fuel_savings_final_010807.pdf>) ALT

Using conservative assumptions, the study found that current public transportation usage reduces U.S. gasoline consumption by 1.4 billion gallons each year. In concrete terms, that means: 108 million fewer cars filling up – almost 300,000 every day. 34 fewer supertankers leaving the Middle East – one every 11 days. Over 140,000 fewer tanker truck deliveries to service stations per year. A savings of 3.9 million gallons of gasoline per day. These savings result from the efficiency of carrying multiple passengers in each vehicle, the reduction in traffic congestion from fewer automobiles on the roads, and the varied sources of energy for public transportation. Public transportation also saves energy by enabling land use patterns that create shorter travel distances, both for transit riders and drivers. We hope to estimate these savings in future research, but were not able to include them in this report.

## Dependence Key To Prices

### 2NC Dependence Key

#### US oil dependency in the transportation sector determines the price of oil – multiple warrants

NRDC 04 [Natural Resources Defense Council, 1.3 million members and online activists with the courtroom clout and expertise of more than 350 lawyers, scientists and other professionals, praised by the New York Times and National Journal on Public Policy, Reducing America’s Energy Dependence: Breaking our addiction to oil is the real solution to high gas prices,’ http://www.nrdc.org/air/transportation/gasprices.asp#head1, JP]

The root cause of high gasoline prices is soaring demand, caused in large part by increasingly fuel-inefficient cars and trucks. Of the 20 million barrels of oil consumed each day, 40 percent is used by passenger vehicles, 24 percent by industry, 12 percent by commercial and freight trucks, 7 percent by aircraft, and 6 percent in residential and commercial buildings.[1](http://www.nrdc.org/air/transportation/gasprices.asp#note1) The U.S. passenger vehicle fleet alone accounts for one-tenth of*world* petroleum consumption.[2](http://www.nrdc.org/air/transportation/gasprices.asp#note2) To make matters worse, fuel economy of the combined car and light truck fleet peaked in 1987 and has essentially been declining since then (see Figure 1, below) due to outdated standards and increased sales of fuel-wasting SUVs and other light trucks. While in real terms oil prices are not as high as in 1981, the current price tag of $40 per barrel of oil is the highest since the 1991 Persian Gulf War. High demand, driven largely by the transportation sector,[3](http://www.nrdc.org/air/transportation/gasprices.asp%22%20%5Cl%20%22note3) has sparked this increase in three ways: First, there is very little excess global oil production capacity.[4](http://www.nrdc.org/air/transportation/gasprices.asp#note4) Even OPEC officials estimate that world crude oil production is running at 97 percent capacity, with a thin cushion of only 2 million barrels per day.[5](http://www.nrdc.org/air/transportation/gasprices.asp#note5) Moreover, the only significant spare capacity is in Saudi Arabia, making this politically unstable country the critical "swing producer." Second, high demand has reduced the ability of suppliers to respond quickly if a sudden supply disruption occurs, and thus traders and speculators have bid up oil prices on the spot market based on the fear that the global oil supply chain may be disrupted by terror attacks.[6](http://www.nrdc.org/air/transportation/gasprices.asp#note6) As a result, the oil industry has profited generously over the last few months and passed the higher costs to consumers at the pump. Finally, U.S. gasoline demand has outstripped our domestic refinery capacity, leading to a tight market for gasoline and other refined products. World surplus capacity in 2004 fell to its second lowest level in three decades.[7](http://www.nrdc.org/air/transportation/gasprices.asp#note7) Lower supply and high demand makes the United States dangerously dependent on Middle East oil, which holds two-thirds of world oil reserves. The United States, with just 2 percent of world oil reserves, relies on the Middle East for one-fifth of our oil imports (see Table 1). Lastly, demand in other countries around the world, particularly in China, is growing even faster than U.S. demand. World oil consumption is expected to rise more than 50 percent by 2025 to 121 million barrels per day, driven largely by the 3 percent annual growth in demand in the developing countries of Asia.[10](http://www.nrdc.org/air/transportation/gasprices.asp#note10) And like the United States, China is becoming more and more dependent on foreign producers since it has less than 2 percent of the world's oil reserves.[11](http://www.nrdc.org/air/transportation/gasprices.asp#note11) With demand growing at nearly 10 percent per year, with imports rising more than 30 percent in 2003 alone, and with more than quadruple the population of the United States, the pressure a growing China puts on global petroleum markets will only escalate over time.

#### Reduced oil dependence means reduced oil prices - globally

Totty & Swartz 09 [Journal Report in San Francisco and senior correspondent for Dow Jones Newswires, citing Amy Myers Jaffe, Fellow in Energy Studies at the Baker Institute, Associate Director of the Energy Program at Rice University, in the Wall Street Journal, http://online.wsj.com/article/SB122660968559325625.html, JP]

**DIAGNOSIS:** For the first time in years, Americans are driving less, and U.S. oil demand is down, helping reduce not only the U.S. trade deficit but the global price for oil. But we want falling oil demand to reflect more than an economic downturn. We want it to be the result of conscious, sustainable policies. If our newfound conservation efforts and energy policies give way to old profligate energy habits when this new round of contraction ends, as happened in the 1980s, we will have lost yet another opportunity to get out of the vicious circle of repeated energy and financial crises.

#### Empirical evidence – dependence determines the price of oil

Behrens & Glover 12[Carl E. Specialist in Energy Policy & Carol, Information Research Specialist at the Congressional Research Service, April 11, http://www.fas.org/sgp/crs/misc/R40187.pdf, JP]

The historical trends show petroleum as the major source of energy, rising from about 38% in 1950 to 45% in 1975, then declining to about 40% in response to the energy crisis of the 1970s. Significantly, the transportation sector continues to be almost completely dependent on petroleum, mostly gasoline. The importance of this dependence on the volatile world oil market was revealed over the past five years as perceptions of impending inability of the industry to meet increasing world demand led to three years of steady increases in the prices of oil and gasoline. With the downturn in the world economy and a consequent decline in consumption, prices collapsed, but then recovered to a much higher level than in the 1990s. With the crisis in Libya in the Spring of 2011, oil and gasoline prices began again to approach their former peak levels. By 2012, Libyan production had recovered, but a new crisis involving Iran further threatened supply.

## Yes Saudi Flood

### XT Saudi Flood

#### Saudia Arabia will flood the market to keep importers dependent

Elass & Jaffe\* 10 [Jareer, Energy Consultant and Editor at the James A. Baker Institute for Public Policy at Rice University, and Amy\*, Wallace Wilson Fellow in Energy Studies at the James Baker Institute for Public Policy at Rice University, ‘The History of U.S. Relations with OPEC: Lessons to Policymakers, http://www.bakerinstitute.org/publications/Amy%20Jareer%20U.S.%20Relations%20with%20cover%20secured.pdf, JP]

While OPEC, led by Saudi Arabia, looks like it will continue to champion a $65-80 bbl oil price range as the ideal level for the foreseeable future, aggressive U.S. climate policies, such as cap and trade legislation, might be viewed down the road by OPEC as a rising energy tax that needs to be countered by less conciliatory OPEC policies. Still, OPEC’s best defense against alternative energy is to drop the price of oil to levels that would render alternative energy as commercially unprofitable. The producer group is not currently actively concerned about the threat of alternative energy because it doesn’t believe that any of the technologies for renewable energy can be scaled up commercially to a significant level within the next 20 years. Thus, the question of OPEC response will be related to the effectiveness of any U.S. or global climate regime and whether it taxes of penalizes oil in a substantial fashion that significantly disadvantages oil-based fuel. A US. Border carbon tax that hits all U.S. imports, including oil imports from Saudi Arabia, might be viewed as a more serious trade problem than U.S. policies to promote alternative energy.

#### Saudi Arabia will flood the market in response to a crisis

ERGO 12 [Provides a wide range of research and consulting services focused on oil and gas, Iraq, and Saudi Arabia, citing eight sources from Saudi Arabia, Iraq, Iran, OPEC, and Middle East politics, ‘The Waning Era of Saudi Oil Dominance,’ http://www.ergo.net/ErgoSpecialReport\_Saudi\_Oil\_Feb2012.pdf, JP]

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.

Saudis will flood oil market to control importers
Shedlock 12[ Mike Shedlock, Marketoracle, Saudi Arabia Hires Super Tankers to Flood U.S With Oil for Election Year, March 21, 2012] <http://www.marketoracle.co.uk/Article33716.html>

Brent crude at $125, US Crude at $110, and soaring gasoline prices everywhere have caused quite a stir. See[Highest Price Ever of Gasoline in March;](http://globaleconomicanalysis.blogspot.com/2012/03/highest-price-ever-of-gasoline-in-march.html)  State-by-State Gas Price and Gas Tax Comparison for a discussion.¶ In response to high prices, Saudi Arabia has a plan to send a wall of supertankers to the U.S. to knock down prices and Republicans have attacked President Obama for not doing enough.¶ Please consider [The price that launched a wall of ships](http://www.ft.com/intl/cms/s/0/946929ee-71e5-11e1-8497-00144feab49a.html#axzz1pfuIPRoI) ¶ In a matter of days, Saudi Arabia has hired the largest number of super-tankers in years. When the tankers load their cargo in Ras Tanura, the world's largest oil terminal, in the next couple of weeks and start a 40-day voyage towards the US Gulf coast, they will deliver a wall of oil with a single aim: to bring prices down.¶ "This is the first time in several years for [Saudi Arabia] to hit the market with such volume - and in such a short time frame," says Omar Nokta, a shipping expert at specialist investment bank Dalham Rose & Co.¶ Last week, Vela, the shipping arm of Saudi Aramco, hired over a few days 11 so-called very large crude oil carriers, each capable of shipping 2m barrels, to deliver to US-based refiners. "In 2011, Vela fixed one VLCC to the US every other month," Mr Nokta says.¶ The hiring spree was the most public move by the kingdom in a series of efforts aimed at bringing down oil prices from $125 a barrel towards $100. "They want to bring prices down. That is it," says a former Western oil official.

#### Saudi Arabia keeps oil prices low to prevent oil independence

#### CNN’11 [CNN’s “Fareed Zakaria GPS” is a weekly publics affairs show focusing on international relations and US foreign policy, hosted by Zakaria, a former columnist for Newsweek and current editor at large for Time magazine. http://edition.cnn.com/2011/WORLD/meast/05/29/us.saudi.prince.oil/]

(CNN) -- Saudi Prince Al-Waleed bin Talal said Sunday that he wants oil prices to drop so that the United States and Europe don't accelerate efforts to wean themselves off his country's supply.

In an interview broadcast Sunday on "CNN's Fareed Zakaria GPS," the grandson of the founding king of modern Saudi Arabia said the oil price should be somewhere between $70 and $80 a barrel, rather than the current level of over $100 a barrel.

"We don't want the West to go and find alternatives, because, clearly, the higher the price of oil goes, the more they have incentives to go and find alternatives," said Talal, who is listed by Forbes as the 26th richest man in the world.

### Link – Efficiency

#### Saudi Arabia will Flood US with oil if US becomes more efficient

#### WSJ 3’ (“U.S. Hooked on imported oil”, Bod Davis and Bhushan Bharee, <http://www.deseretnews.com/article/970953/US-hooked-on-imported-oil.html?pg=all>)

Why is the U.S. economy still hostage to oil prices?¶ The only time during the past three decades that U.S. oil imports have declined substantially was between 1979 and 1983 when they fell by 40 percent. One reason was the deepest recession since the Great Depression, which cut demand for energy. But another was that oil prices rose sharply in the wake of the Iranian revolution of 1979, when fears rose again of a cut-off in oil, and remained high for several years afterward.¶ Automobile and light-truck fuel efficiency increased by about 15 percent between 1979 and 1983, as the U.S. first began enforcing the standards. Many Americans dumped gas guzzlers for smaller cars. At the same time, President Reagan ended oil-price controls, setting off a boom in domestic drilling and arresting, through the mid-1980s, the downward spiral in U.S. oil output.¶ OPEC was spooked. Prices hit $40 a barrel in 1979 — $100 a barrel at today's prices, after accounting for inflation — and were expected to double during subsequent years, to the delight of Algeria, Iran and others interested in boosting revenue.¶ But Saudi Arabia, which has the world's largest oil reserves, worried that high prices would backfire. And to reduce U.S. imports, President Carter championed an $88 billion plan to develop synthetic oil from abundant U.S. reserves of coal and shale.¶ So Saudi Arabia started selling oil at prices several dollars a barrel lower than the OPEC $34-a-barrel standard. Then, in 1985, as the cartel was facing increasing competition from Alaskan and North Sea oil fields, Saudi Arabia and Kuwait engineered a price crash.¶ After a meeting in which OPEC decided to go after market share rather than prop up prices, Sheik Yamani, the Saudi oil minister, said to several reporters, let's see how the North Sea can produce oil when prices are at $5 a barrel.¶ At low prices, the Persian Gulf countries have an unbeatable edge. In the mid-1980s, it cost them a couple of dollars a barrel to produce oil. It cost about $15 to produce a barrel off the coast of Britain and Norway or in the U.S.¶ The move was a warning to the U.S.: Forget about energy independence. Besides being the world's largest consumer and importer of oil, the U.S. is also one of the largest producers. The price decline, to about $12 a barrel, was so devastating to the economies of Texas, Louisiana and other oil-rich states that then-Vice President George H.W. Bush toured the Persian Gulf in 1986, urging countries to rein in their output and raise prices.¶ "Isn't that what you wanted? A free price in oil," OPEC's president, Rilwanu Lukman of Nigeria, goaded Bush when the two met in Kuwait. Bush eventually reached an understanding with Saudi Arabia's King Fahd, to limit production and seek a 50 percent rise in oil prices to a target price of $18 a barrel (or $30 a barrel in today's terms). Over the years, OPEC has adjusted its target range and now generally aims for between $22 and $28 a barrel.¶ OPEC's strategy has largely worked. Since the mid-1980s, the U.S. thirst for oil has increased. President Carter's synthetic-fuel program couldn't compete with the new OPEC prices and was ridiculed for its massive, money-losing projects. Although the U.S. has deep reserves of coal and natural gas, neither can be tapped economically to make gasoline, the primary use for petroleum.

### Link – Alternative Energy

#### Saudis will lower prices to combat alternative energy

Levine 6/19 [“The Coming Oil Crash”, Foreign Policy through NPR, <http://www.npr.org/2012/06/20/155423920/foreign-policy-the-coming-oil-crash>)

In an email exchange, Verleger pointed me to an [interview](http://ftalphaville.ft.com/blog/2012/06/13/1040961/why-saudi-arabia-wants-to-bathe-the-world-in-affordable-oil/) he did a few days ago with Kate Mackenzie at the Financial Times. First, he explains, the Saudis are out for blood when it comes to fellow petro-states Russia and Iran, the former for failing to help calm the fury in Syria, and the latter for refusing to go to heel and give up its nuclear ambitions; in both cases, the Saudis think lower prices will produce a more reasonable attitude. In addition, Saudi Arabia is terrified of a current U.S. boom in shale oil; it is hoping that lower prices will render much of the drilling in North Dakota's Bakken Shale and Canada's oil sands uneconomical. Finally, the Saudis are well aware that low oil prices helped to turn around the global economic downturn in 1998 and 1999, and they hope to help accomplish the same now, and perhaps win new affection from the world's leading economies.

### A2 No Reserves

#### Saudi Arabia has plenty of reserves left – they have a spare capacity of 12 million barrels

Cho 4-13-12 [Meeyoung, Reuters News Service, ‘Update 3-Saudi’s Naimi says Determined to Bring Down Oil Prices,” http://articles.chicagotribune.com/2012-04-13/news/sns-rt-saudi-oil-update-3l3e8fd1tx-20120412\_1\_brent-crude-spare-production-capacity-oil-prices, JP]

SEOUL, April 13 (Reuters) - Top oil exporter Saudi Arabia is determined to bring down high oil prices and is working with fellow OPEC members to accomplish that, Oil Minister Ali al-Naimi said on Friday. "We are seeing a prolonged period of high oil prices," Naimi said in a statement during a visit to Seoul. "We are not happy about it. (The Kingdom of Saudi Arabia) is determined to see a lower price and is working towards that goal." The influential Saudi oil minister earlier this year identified $100 a barrel as an ideal price for producers and consumers earlier this year. Concern of a supply shortage due to production problems in some producing countries and as U.S. and European sanctions target exports from OPEC's second-largest producer Iran have helped keep Brent crude well above that mark. Naimi reiterated that there were no supply shortages in the global [oil market](http://articles.chicagotribune.com/2012-04-13/news/sns-rt-saudi-oil-update-3l3e8fd1tx-20120412_1_brent-crude-spare-production-capacity-oil-prices) and the kingdom stood ready to tap into its spare capacity of 12.5 million barrels per day if more crude was needed. "The story is one of plenty," he said. "Supply is not the problem." Saudi Arabia is pumping 10 million barrels per day, the highest level since November, when the kingdom produced more than it had done for decades. "Fundamentally the market remains balanced -- there is no lack of supply," he said. "Saudi Arabia has invested a great deal to sustain its capacity, and it will use spare production capacity to supply the oil market with any additional required volumes." "They (Saudi Arabia) do have the capacity to flood the market with extra oil and increase supplies because they are not happy with persistently high oil prices," said Ben Le Brun, a market analyst at OptionsXpress in Sydney.

#### Saudi Arabia will flood markets to increase dependence on Saudi oil

Hamilton and Chinn 7 [James D. Hamilton is Professor of Economics at the University of California, San Diego Menzie Chinn is Professor of Public Affairs and Economics at the University of Wisconsin, Madison “Econbrowser: Saudi oil production cuts” <http://www.econbrowser.com/archives/2007/02/saudi_oil_produ_1.html>]

The first possibility is that the Saudis could still pump 10 mbd or more today if they wanted to, but they are cutting back production and exploring like mad because they put an extremely high value on having 2-3 mbd of excess capacity. If so, the recent price behavior suggests that the reason they would seek such capacity is not because they want to stabilize the price, but because it puts them in an incredibly powerful negotiating position. For example, the ability at any time to flood the market could be used at an opportune moment to undercut expensive alternatives such as oil sands that require an oil price over $50.

#### Saudi Arabia will flood markets with cheap oil to reassert dependence on oil

IREA 12 [The Illinois Renewable Energy Association (IREA) is a non profit 501(3)(c) interested in energy efficiency and renewable energy. “Renewable energy projects continue to meet resistance” <http://rockrivertimes.com/2012/03/07/renewable-energy-projects-continue-to-meet-resistance/>]

We have known since the 1970s society would be hard-pressed to find alternative energy sources of sufficient size to replace oil as supplies peak. Policies were implemented to improve energy efficiency in buildings, produce vehicles that got more miles per gallon, limit highway travel to 55 miles per hour and develop renewable[s] energy sources such as wind and solar. Amory Lovins declared that energy plans such as coal gasification, oil shale and gas and nuclear were not necessary if an aggressive program of energy efficiency were implemented. The effort was relatively short-lived, as the United States persuaded Saudi Arabia to flood[ed] the market with oil, collapsing energy prices. It delay[ing]ed the threat renewables posed to the oil industry.

#### Saudi Arabia has Stockpiles and capability to increase output

Williams 11’ [“Fear of disruption fuels oil price rise”, 3/22/11, Felicity Williams]

THE allied military intervention in Libya threatens to propel oil prices to record highs and derail the fragile global economic recovery, experts warn.¶ Julian Jessop, chief international economist at London-based Capital Economics, said that oil prices may return to all-time highs of above $US140 a barrel if Libya's production facilities were destroyed or damaged.¶ ``The upward pressure on the price of oil to date has been capped by the expectation that the disruption to Libyan oil supplies will only be short-lived, allowing it to be offset fairly easily by drawing on stockpiles and increases in output from elsewhere, notably Saudi Arabia,'' he said.¶ ``This might change if there is more serious damage, accidental or otherwise.''¶ Oil prices were trading more than $US2 a barrel higher for about $US103 a barrel in New York last night as the military intervention in Libya raised fears of a disruption to crude supplies.¶ The value of crude has soared in recent months after anti-government protests erupted in Libya and elsewhere in the oil rich-region earlier this year.¶ Experts have warned that an increase in oil prices beyond $US120 a barrel may jeopardise the global economy's attempt to bounce back from the GFC as it would force central banks to lift interest rates to rein in inflation.¶ Such a scenario would also prompt traders to abandon risky investments such as shares and the Australian dollar which again hit parity yesterday in favour of traditional safe-havens including gold and the greenback.¶ Closer to home, a sustained increase in oil prices would cause more pain for Australian consumers who face the prospect of paying more at the petrol bowser just as they're being slugged with rising grocery bills and insurance premiums after the Queensland floods.¶ CommSec economist Savanth Sebastian said the average household was already paying about $200 a month for petrol, up $25 in just four months.¶

#### Saudi Oil Producers have the power to flood the market with oil

NASDAQ 6/11 [“Saudi Arabia Defends Oil Output Jump”, 6/11/2012, Geraldine Amiel]

¶ VIENNA--Likening the recent jump in oil output to an economic "stimulus" measure for the global economy, Saudi Oil Minister Ali al-Naimi vowed in remarks published Monday to continue to pump oil as needed and implied that he favors a higher production ceiling for the group.¶ Mr. Naimi's comments provided a window into the thoughts of OPEC's most influential power-broker and came as other OPEC members publicly warned that the oil market is oversupplied.¶ Oil prices have recently dropped from $128 a barrel to around $100 following moves by Saudi Arabia to pump at 10 million barrels a day, a level that has lifted global inventories.¶ Saudi Arabia's "recent increase in production proved, yet again that, we stand ready to take action to ensure markets are supplied, whatever the reasons," Mr. Naimi said in remarks to Gulf Oil Review.¶ The recent drop in prices has "acted as a type of stimulus to the European and world economy," he added.¶ Earlier Monday, Iraq's oil minister, Abdul Kareem Luaiby, said the oil market is over supplied. Speaking in his capacity as president of OPEC ahead of its meeting in Vienna later this week, Mr. Luaiby said it is "pretty clear" that there is an oversupply situation in world oil markets.¶ The remarks by Mr. Naimi and Mr. Luaiby stake out different sides ahead of an OPEC meeting Thursday that could be contentious. Iran and other countries have criticized Saudi's recent jump in output, which has come as global leaders look for alternative supplies ahead of new sanctions on Iran.¶ Also Monday, Maria van der Hoeven, who represents consuming nations as the executive director of the International Energy Agency, said OPEC has so far had an "intelligent" answer to meet consumers' needs in light of the uncertainty over Iran.¶ Asked what she believed OPEC should decide this week, Ms. van der Hoeven said she hoped that the group would keep on addressing the markets' needs, but she didn't elaborate.¶ Mr. Naimi said Saudi Arabia's analysis "suggests we will need a higher ceiling than currently exists," but that the Saudis will see how other OPEC members react before formulating a position.¶ The Organization of Petroleum Exporting Countries is currently pumping about 6% above the current production ceiling of 30 million barrels a day. A move to boost the production ceiling would send a signal to the market formalizing higher output and would be controversial with other OPEC members.¶ A Saudi move to keep oil output elevated and now a higher-ceiling call has irked many OPEC members, even those not always aligned with its arch-foe Iran.¶ The delegates, who support maintaining the current ceiling, say the group's swing producer Saudi Arabia is privileging its foreign-policy agenda to the detriment of the group's interests.¶ "The Saudis just want to flood the market to please their American friends," one African delegate said, when asked about Naimi's view on the need for a higher production ceiling.¶ With remarks like this, "prices won't bounce back," the delegate added.¶ Asked about why the kingdom thinks $100 per barrel is a suitable price, Mr. Naimi said that with the cost of oil production going up, as exploration efforts venture into ever more hostile terrain, a reasonable price is required to ensure exploration can continue throughout the world.¶ Saudi Arabia is currently producing 10 million barrels per day and has spare capacity of a further 2.5 million barrels per day that it can bring online if required. But the kingdom does not see a case for further expansion of production capacity, Mr. Naimi said.

#### Saudi Arabia Holds Key to World Oil Market

Forbes 6/12 [“OPEC Battle Royale: Saudis Pitted Against Iran and Venezuela Over Oil Prices”, Agustino Fontevecchia, 6/12/12]

With oil prices down more than 18% in May, the coming OPEC meeting will take on added importance as Saudi Arabia squares off with petro-hawks looking for higher prices and more profits. The Saudis, pumping extra oil to “stabilize” supply and demand, have effectively flooded the market, hurting budget-weak producers like Iran and Venezuela. The tension between the members promises to deliver an interesting summit in Vienna on Wednesday and Thursday.¶ OPEC has been effectively been pumping crude well above its stipulated quota recently. According to its own reports, the world’s oil cartel was producing 32.96 million barrels per day in April (the last month for which data is reported), well above the 30 million barrels its members are supposed to be collectively producing.¶ This overproduction is a consequence of Saudi Arabia trying to balance a market that got completely out of hand in early March, when Brent crude hit a high of $128.40 a barrel and threatened to derail the global economic recovery. The Saudis have raised the ante, taking production north of 10 million daily barrels this quarter, its highest in decades, in order to provide what Oil Minister Ali al-Naimi called “a type of stimulus, according to [Reuters](http://www.reuters.com/article/2012/06/12/opec-idUSL5E8HCDPL20120612).¶ [Markets](http://www.forbes.com/markets/) can expect a heated discussion over the next two days, as oil ministers from the 12-member bloc huddle in Vienna to figure out what to do going forward. Saudi Arabia’s attempts to calm markets have led to a 1.5 million barrel per day oversupply in the first three months of the year, and will probably build another 2.4 million barrels of excess stocks by the end of the second quarter, according to [UBS](http://www.forbes.com/companies/ubs/).¶ This oversupply will lead to a “massive stock build” in the second half of the year, thus putting pressure on weaker members’ budgets. Iran, for example, will see an EU embargo hit on July 1, probably shutting in between 0.6 and 0.8 million barrels per day of production. Indeed Iranian output is near two-year lows at 3.138 million barrels per day, according to secondary sources cited by OPEC (Iran reported 3.76 million barrels).¶ Venezuela, another of the petro-hawks in the group, has already signaled it will make a “strong call” to other members to rein production in, bringing it back down to the 30 million daily barrel quota. Oil minister Rafael Ramirez will be putting the pressure, as the troubled South American nation goes into an election cycle pitting cancer-stricken Hugo Chavez against the fragmented Venezuelan opposition.¶ Saudi Arabia holds the keys, though. As [Matthew Hulbert](http://blogs.forbes.com/matthewhulbert/) previously [reported](http://www.forbes.com/sites/matthewhulbert/2012/06/10/opecs-pending-bloodbath/), “with some budgetary tweaks and counter-cyclical cash to burn, [the Saudis and its Gulf partners] could all easily survive at $85/b making Iran et al sweat.” While the Saudis have made it clear that they’d like to see the price of Brent stabilize around $100 per barrel, letting prices drop to put political pressure on other OPEC members, or to add hurdles to those looking to boost non-OPEC production via unconventional methods (shale plays, ultra-deepwater pre-salt basins, etc) could provide the needed push to exert its power.¶ Analysts at UBS believe Saudi Arabia and other key members will unilaterally cut between 0.5 and 1 million barrels per day, despite keeping the official quota at 30 million. This should be enough, on the face of it, to balance the market, keeping Brent around $100 per barrel. But, the coming implosion of the Eurozone, coupled with weak economic performances by China, India, and the U.S. could limit the Saudi’s ability to balance supply and demand.¶ Prices at around $100 should help big oil in the coming quarters. Companies like [Exxon Mobil](http://www.forbes.com/companies/exxon-mobil/), [Chevron](http://www.forbes.com/companies/chevron/), and BP have acknowledged the impact of oil price fluctuations on their operations, particularly refining margins. At the same time, oil field service firms like Schlumberger and Halliburton will see their operations affected if production is curtailed.¶ UBS is optimistic that the Gulf States, led by Saudi Arabia, will be able to balance the market. They understand that better fundamentals (through production cuts), coupled with the Iran risk-premium, will offset slowing global growth. Whatever happens, markets should keep an eye on the coming OPEC summit, which promises to be a good one.

#### Saudi Arabia will Flood the Market to Make Up For Iranian Sanctions

WSJ 7/6 [“$100 oil out of reach despite Iran saber-rattling”, 7/6/12, Myra P. Saefong]

¶ The market is a long way from $100 on WTI crude because of a “three-pronged bearish attack on prices from deteriorating demand from the euro-debt crisis, a slowing U.S. economy and signs of slowing in China,” said Matt Smith, an analyst with Summit Energy.¶ There’s also a bearish impact on the supply side, with Saudi Arabia raising production, which stood at around 9.5 million barrels per day in 2011, according to U.S. government data.¶ U.S. onshore domestic production has ramped up too, while Saudi Arabia has increased production to 10 million barrels per day “and indicated it will do so further if needed,” Smith said.¶ Saudis to the rescue¶ The Saudis, a weaker global economy and Europe’s debt crisis have combined to significantly soften the blow of any global supply cuts or disruptions related to Iran.¶ The Iran nuclear issue has been “dwarfed by the supply response by Saudi Arabia, and by the euro-debt crisis,” Smith said. “Iranian concerns added a risk premium earlier in the year, but this has been unwound by both the Saudis boosting production and more headline-grabbing economic fears elsewhere.” Meanwhile, “Iran has faced a fundamentally weakening market as we have moved through the year, with increasing supply and slowing demand growth,” he said. “If there was a more robust global economy, we may have seen more of a lingering price impact.”¶ All in all, that “leaves the Strait of Hormuz as their biggest asset to saber-rattle about,” he said, but the “incremental supply loss is not concerning the market, at least not at the moment.”¶ Indeed, Iran has been consistently threatening since early this year to block the Strait, which is a key shipping route for oil, in retaliation for EU sanctions on the nation due to Tehran’s nuclear program.¶ In its latest threat, “Iran intends on blocking any oil tanker en route to countries no longer buying Iranian crude oil because of the now fully imposed economic sanctions,” said Bob van der Valk, a petroleum-industry analyst based in Terry, Mont.¶ ¶ But historically, Iran’s willingness and ability to follow through with its threats have been slim — and the oil market knows that, analysts have said. [Read about Iran’s history of oil threats.](http://www.marketwatch.com/story/oil-market-should-worry-but-not-fear-iran-2012-02-16)¶ Besides, “Saudi Arabia will flood the crude-oil market to punish Iran if they shut down the Strait of Hormuz for shipments of Middle East crude oil,” said van der Valk.¶ And it has plenty of oil to do it.¶ Even though it was producing 10 million barrels per day during the first quarter of this year, the Saudis still have 2.5 million barrels per day of official spare capacity, which represents almost 70% of Iran’s total 2011 output of 3.6 million barrels per day, said Argent Capital’s McDonald.¶ “There are plenty of reported loopholes in both the U.S. sanctions and the EU insurance ban [on Iranian oil shipments], so Iranian exports will be hurt a little more, but not enough to exceed the Saudi’s ability to cover the reduced supply,” he said.¶

#### Saudi Arabia has shown that they will increase output in the face of lowered middle eastern production

**WSJ 6/13** [“An Awkward Moment in Vienna”, 6/13/12, Benoit Faucon and Alessandro Torello]

An awkward encounter between Iran and the European Union offers a reminder of Saudi Arabia’s pivotal role in the oil market–and may offer some symbolic hope for peace.¶ Earlier Wednesday, Europe’s energy czar Gunther Oettinger was meeting Saudi Oil Minister Ali Naimi under the high ceilings of Vienna’s Hofburg palace. The topic? Sell Europe enough Saudi oil to make up for an upcoming oil ban on Tehran. That was until Iran Oil Minister Rostam Ghasemi burst into the heavily-guarded room uninvited.¶ According to people familiar with the chance meeting, Mr. Ghasemi had been due to meet Mr. Naimi later to iron their differences ahead of a meeting of the Organization of Petroleum Exporting Countries Thursday: The Iranians have blamed their regional Saudi rivals for flooding the market and precipitating an oil-price decline at a rate not seen since the recession of 2008.¶ Mr Naimi’s busy schedule was off to a bad start with the agenda clash having the potential to morph into a diplomatic collapse.¶ On a personal level, Mr. Ghasemi is a top commander in the hardline Revolutionary Guard and as such is personally under sanctions from Mr. Oettinger’s EU.¶ More broadly, Iran’s oil exports–its largest source of revenue–have fallen by more than a quarter largely because most European refiners have stopped buying its oil ahead of the EU embargo.¶ Despite continuing talks elsewhere on Tehran’s nuclear program, the EU has vowed to go ahead with the measure.¶ And much of the gap is being filled by Saudi Arabia.

## High Oil Prices Good Impacts/a2 Turns

### Resource Wars

#### Low oil demand causes resource wars

Miller, 10 (Gregory, Professor at Oklahoma State University, Ph.D. in Political Science from The Ohio State University, also taught at College of William & Mary, “The Security Costs of Energy Independence”, April 2010, The Washington Quarterly, <http://csis.org/files/publication/twq10aprilmiller.pdf>) ALT

Oil has often been a cause of regional conflicts, such as Iraq’s invasion of Kuwait in 1990 or the July 2001 clash between Iran and Azerbaijan over oilbearing zones in the Caspian Sea. So, it is possible that less global demand for oil would decrease the frequency of such situations. As states lose their oil revenue, however, and thus the ability to provide their people the standard of living to which they have grown accustomed, basic necessities could become catalysts for conflict. Resources such as food and water are already scarce in many parts of the world, a problem that would be exacerbated for states that lose substantial oil revenues.

#### Decrease in interdependence increases likelihood for conflict- military force and terror increase.

Miller, 10 (Gregory, Professor at Oklahoma State University, Ph.D. in Political Science from The Ohio State University, also taught at College of William & Mary, “The Security Costs of Energy Independence”, April 2010, The Washington Quarterly, <http://csis.org/files/publication/twq10aprilmiller.pdf>) ALT

A drop in demand for oil would lead to increased probability of conflict between current oil exporters and their customers, including developed Western states, as well as between oil producers and their neighbors. This risk will be especially pronounced in regions with a high number of oil-exporting states such as the Middle East. According to the concept of interdependence, the likelihood of states going to war with each other decreases as mutual dependence between them increases, with trade being the most common measure of interdependence. This idea was reflected in the Clinton administration policy of increasing trade with China in the 1990s. Early European integration in the 1950s was similarly designed to prevent a future European war. If valid, then the inverse of the theory suggests that as states reduce their demand for foreign oil, levels of interdependence between consumer states and oil exporters will fall, increasing the likelihood of conflict. Although it is unlikely that war would occur simply because of lower trade levels, the logic of interdependence theory is that the wealth gained from trade restrains policymakers who otherwise might engage in conflict If the United States is no longer dependent on foreign oil and if oil-exporting states no longer gain revenue from the United States, there would be fewer constraints on each state’s willingness to use violence, whether it be in the form of conventional military force or state sponsorship of terrorism.

#### Turn: US consumption reduction drops price, leading to overproduction and therefore resource wars sooner.

Miller, 10 (Gregory, Professor at Oklahoma State University, Ph.D. in Political Science from The Ohio State University, also taught at College of William & Mary, “The Security Costs of Energy Independence”, April 2010, The Washington Quarterly, <http://csis.org/files/publication/twq10aprilmiller.pdf>) ALT

Initially, the loss of the United States as a major consumer would not cripple the economies of oil suppliers because there will be enough demand from countries such as India and China to provide continued revenue. In fact, U.S. reductions in consumption would even benefit many other potential consumers that do not have the money to purchase enough oil at current prices. To balance this drop in price, however, the likely response from oil producers will be to boost production and sell more oil. This will diminish the world’s oil reserves even more rapidly, possibly creating more interstate conflicts over remaining oil supplies, and ultimately run the security risks outlined here. As a result, the long-term consequences of even just the United States cutting its consumption of oil will be striking. These effects will be multiplied if global consumption also declines.

#### Turn: If US doesn’t depend on oil states they won’t exercise restraint, and if exporters don’t need US they won’t cooperate.

Miller, 10 (Gregory, Professor at Oklahoma State University, Ph.D. in Political Science from The Ohio State University, also taught at College of William & Mary, “The Security Costs of Energy Independence”, April 2010, The Washington Quarterly, <http://csis.org/files/publication/twq10aprilmiller.pdf>) ALT

One counterargument is that the United States has been drawn into a number of conflicts as a result of its dependence on Middle East oil, such as the reflagging of the Kuwaiti oil tankers in 1987 and the 1991 Persian Gulf War. 5 According to this logic, reducing its dependence on foreign oil would help the United States stay out of such conflicts. Although plausible, a useful exercise is to imagine a future where the United States is no longer dependent on Middle Eastern states for oil. Although the United States will still have important economic and political interests in the Middle East, such as Israel, Iraq, and Turkey as a NATO ally, if oil no longer provides states with some leverage over U.S. foreign policy, then the United States can pursue its interests with less concern about retaliation by oil-exporting states or by the Organization of the Petroleum Exporting Countries (OPEC). Conversely, as long as oil-exporting states depend on the United States to purchase oil, they are more inclined to assist the United States in pursuing any of its interests, such as the fight against terrorism. Consequently, if states no longer depend on the United States as a consumer, they may have less interest in cooperating with the United States.

### Terrorism

#### Oil money prevents terrorism- income leads to infrastructure and other key factors to stability.

Miller, 10 (Gregory, Professor at Oklahoma State University, Ph.D. in Political Science from The Ohio State University, also taught at College of William & Mary, “The Security Costs of Energy Independence”, April 2010, The Washington Quarterly, <http://csis.org/files/publication/twq10aprilmiller.pdf>) ALT

Although internal violence, including terrorism, is often believed to be born out of economic hardship, the number of terrorists coming from Kuwait is greater than the number from Niger. 6 This suggests that some level of wealth is necessary for violence to occur; bomb-making requires some education, and ammunition costs money. The most dangerous situations appear to be when individuals have wealth, but then lose what they have or fear they are about to, therefore engaging in violence out of dissatisfaction. For example, Professor Scott Atran shows that suicide terrorists are not poor or lacking in opportunities, but that relative loss of economic or social advantage by educated persons might encourage support for terrorism. 7 If true, current oil-exporting states are particularly susceptible to internal violence as a result of this relative deprivation. Several of these states already suffer from internal problems because of social divisions, but these issues will grow as national wealth declines, making governments less capable of dealing with unrest either by providing social programs or through intimidation. Even in states where the majority of the population does not directly profit from the sale of oil, many people still benefit from oil wealth, such as better roads, more educational opportunities, and more advanced technology. Even relatively small cuts in revenue will negatively affect those populations. Similarly, just as resource scarcity is a catalyst for interstate conflict, economic problems stemming from a lack of necessary resources also lead to internal violence, as illustrated in Sierra Leone in the early 1990s and Indonesia in 1997. These same types of conflicts would increase in frequency within states that are somewhat stable now, only because oil provides them with a relatively satisfied population and because it gives governments the means to crack down on those who would engage in violence.

### Alternative Energy

#### Oil price collapse kill energy innovation- solar power, biofuels, and electric cars all need competition of high oil prices to survive

Bullis 6/26/12 (Kevin, MIT Technology Review’s senior editor for energy “Could New Oil Production Cause Oil Prices—and Energy Innovation—to Collapse?”, 6/26/12, MIT Technology Review, <http://www.technologyreview.com/view/428343/could-new-oil-production-cause-oil-pricesand/>) ALT

A new report out of Harvard suggests that a boom in oil exploration and production—driven by a surge of investment starting in 2003—might lead to a sharp drop in oil prices. If that happens, could that kill development of alternatives to oil, as happened when oil prices hit bottom in the 1990s? Will solar panels, electric cars, and advanced biofuels fade from view? Three decades ago, high oil prices spurred investment in alternatives. But by the time oil prices had bottomed-out in the 1990s, much of that research had been abandoned, and promising technologies didn’t come to market or weren’t made cheap enough to catch on widely. With the surge in oil prices in recent years, much of that research has been taken up again, and the trends look good. Solar power is approaching the cost of conventional fossil-fuel power, and advanced biofuels seem on the cusp of becoming commercial reality. As new energy startups proliferated, many alternative energy researchers and companies waved away suggestions that oil might plummet again, causing these technologies to be abandoned once again. The conventional wisdom has been that high demand from fast-growing economies will keep oil prices high enough to drive innovation. And concern about climate change will lead to a price on carbon that will drive new technologies even if oil prices drop. But interest in climate change seems to have waned, and efforts to put a price on carbon dioxide emissions have failed in the U.S. and most of the rest of the world. If oil prices also drop due to overproduction, as the report suggests, what could that mean for technologies such as electric cars, advanced internal combustion engines, and renewable electricity sources, such as solar power? Taking solar power first, things are a bit different now than in the 1970s, at least in the United States. The oil crisis spurred investment in solar power in part because oil was used to generate a substantial amount of electricity in the United States. Now the U.S. hardly uses oil at all for generating electricity, and installing solar panels doesn’t do anything to decrease oil consumption. Some people don’t know that, and support solar as a way of reducing oil consumption—their support could fade with high oil prices. Such public support is critical for the solar industry now, since it relies heavily on subsidies. More importantly, while the U.S. doesn’t use oil for electricity, much of the rest of the world does. At current oil prices, solar power is cheaper than electricity from diesel generators, and that’s creating a new markets for solar panels. A drop in oil prices could hurt the solar industry. But solar panel prices have been dropping quickly, and some solar companies, such as First Solar, are staking their business on the prospect that they can soon be competitive in unsubsidized markets. There’s a race on. If the oil price drops within the next couple of years, that could be a bad sign for the solar industry. If it drops later, the solar industry may be able to survive on its own by then, even if it’s hurt some by lower prices. A drop in oil prices could really hurt advanced biofuels companies, which are struggling to get prices low enough to compete with even today’s relatively pricey oil. Low oil prices could further deteriorate already strained support for advanced biofuels. And low oil prices could also hurt attempts to sell electric cars, and cars with costly efficiency improvements. Automakers have struggled to sell electric cars even with relatively high gas prices. If oil prices drop, will new fuel economy standards that are driving automakers to sell more efficient vehicles hold up?

### XT Alt Energy

#### High oil prices promote reductions in emissions and renewable energy.

UN 07 (United Nations Commission on Sustainable Development, “Energy for Sustainable Development”, April 2007, UN Department of Public Information, <http://www.un.org/esa/sustdev/csd/csd15/media/backgrounder_energy.pdf>) ALT

Energy issues are again on top of the international agenda this year, and energy efficiency and climate change are among the main issues before the G8 Summit that will be held in June in Heiligendamm in Germany. Energy was a major theme for United States President George W. Bush, who called for “energy independence” in his major address to Congress in 2006. Indian Prime Minister Manmohan Singh, explaining in an interview with the Washington Post why India was looking at new energy partnerships said, “We are terribly short of our energy supply and we desperately need new sources of energy.” And China, which has seen its imports of oil increase dramatically, has adopted a 15-year plan to improve conservation, the use of renewable energy sources, and cleaner coal. High oil prices may help promote energy conservation and reductions in greenhouse gas emissions and could provide the economic impetus to turn to alternative energy sources such as renewable energy. But high oil prices take a toll on the pocketbooks of consumers in developed countries and can be devastating to non-oil producing developing countries, which often have to dip into reserves to pay for energy imports. Energy price volatility poses major problems for sustainable development in both energy exporting and importing countries.

#### High oil prices key to survival of all alternative energy tech startups.

Hoium 12 (Travis, stock adviser and author of award winning economic blog The Motley Fool, “Rising Oil Prices Aren't All Bad”, 2/28/12, Daily Finance, http://www.dailyfinance.com/2012/02/28/rising-oil-prices-arent-all-bad/)

Whether you're a fan of natural gas, biofuels, wind, solar, or any other alternative energy source, you should be happy about the rising price of oil. When oil is cheap, alternatives are the last thing consumers and politicians have on their minds. When oil goes up, suddenly the urgency to find alternatives increases. Whether it's Clean Energy Fuels' (NAS: CLNE) natural gas highway, First Solar's solar farms in California, or the offshore wind developments that will connect to a Google-backed transmission system, the alternative energy industry likes high oil prices. These alternative energy sources are still relatively young in their development, and rising oil prices will help them get more funding and be more competitive with oil-based alternatives.

#### Increased consumption of oil from high prices is only temporary.

Gholz and Press, 07 (Eugene and Daryl, Professor of Public Affairs at University of Texas with PhD from MIT, Professor of Government at Dartmouth and PhD from MIT, “Energy Alarmism The Myths That Make Americans Worry about Oil”, 4/05/07, Policy Analysis, No. 589, <http://www.cato.org/pubs/pas/pa-589.pdf>) ALT

Although rising prices generally dampen demand, in the short term climbing prices may actually spark additional demand. If the factors pushing up prices seem likely to continue, then consumers, brokers, and producers may decide to fill their inventories so that they can profit from the even higher price they expect in the future. Such speculation is the principal mechanism at work when fears of war or political instability drive up oil prices. 5 But this dynamic occurs only in the short term: eventually inventories become full or the price rises sufficiently that speculators start to sell their inventories. Demand returns to a level commensurate with actual consumption, and the price is temporarily depressed because the market draws supply both from ongoing extraction and from the excess inventory. Day-to-day prices may bounce around quite a bit as consumption, extraction, and inventory strategies adjust, but that volatility is centered on a price level determined by “real” supply and demand.

#### General price rise will incentivize energy efficiency and alternative energy research.

Gholz and Press, 07 (Eugene and Daryl, Professor of Public Affairs at University of Texas with PhD from MIT, Professor of Government at Dartmouth and PhD from MIT, “Energy Alarmism The Myths That Make Americans Worry about Oil”, 4/05/07, Policy Analysis, No. 589, <http://www.cato.org/pubs/pas/pa-589.pdf>) ALT

In sum, the simple peak oil argument that suggests that the world is running out of oil is 7 Past efforts to increase stability in oil-producing areas by supporting dictators, policing violent regions, or spreading democracy have a dubious track record.unconvincing; oil will remain the foundation of the global economy for decades to come. As demand for energy continues to increase, oil prices will likely rise in the long term, increasing incentives for new oil exploration, technology development, energy efficiency, and research on alternative energy sources. Meanwhile, concentration of oil production in unstable regions does pose a certain danger, but market processes, including diversification of sources of supply and investment to reduce the economic costs of finding and extracting oil, respond to the danger better than ambitious foreign policy options.

Sustained high prices key to continued development of renewable technologies- empirics prove.

Kyle 08 (Steven, Scientific American staff writer, “For Alternative Energy's Sake--Keep Oil Prices High”, 12/16/08, The Scientific American, http://www.scientificamerican.com/article.cfm?id=keep-oil-prices-high)

So what is the problem? In the short run, nothing. But sustained development of new energy sources always rests on the condition of the old ones. Coal did not arise as Europe’s main energy source until Europeans had cut down virtually all their forests for fuel, and the later switch to oil did not occur until the scarcity of coal drove its price high. In the 1970s Americans responded to high oil prices with alternative energy projects and more fuel-efficient cars. But when prices dropped in the 1980s, we threw caution to the wind—along with the energy projects. We purchased ever larger cars and SUVs and moved to ever more distant suburbs. Sure enough, now that oil prices have spiked again, we are looking at the same alternatives we had relegated to niche markets then. Today renewable technologies such as wind and solar are close to being competitive with fossil fuels. But we can say good-bye to that prospect if oil prices decline to $60 to $70 a barrel, which could easily happen in a recession, as we witnessed in October. Two years of lower prices can turn hybrid cars into a bad financial proposition for consumers, and green technology start-up companies could go bankrupt as demand for their goods dries up. Even a temporary decrease in petroleum prices would undermine the long-term development of the alternatives we all know we need.

#### Oil shock key to alternate energy transition

**Hsu 11** – Reporter for the Los Angeles Times, Tiffany, “Interest in renewable energy may stick as oil prices surge”, http://articles.latimes.com/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."

### XT Reduces Emissions

#### High oil prices key to reduce long distance shipping.

Rohter 08 (Larry, NYT staff writer, received Maria Moors Cabot Prize at Columbia University for best foreign correspondant, “Shipping Costs Start to Crimp Globalization”, 8/3/08, The New York Times, <http://www.nytimes.com/2008/08/03/business/worldbusiness/03global.html?pagewanted=1&_r=2&partner=rssnyt&emc=rss&adxnnlx=1217786776-eXz0YcalCDb/zMy8nxGFew>) ALT

Decisions like those suggest that what some economists call a neighborhood effect — putting factories closer to components suppliers and to consumers, to reduce transportation costs — could grow in importance if oil remains expensive. A barrel sold for $125 on Friday, compared with lows of $10 a decade ago. “If prices stay at these levels, that could lead to some significant rearrangement of production, among sectors and countries,” said C. Fred Bergsten, author of “The United States and the World Economy” and director of the Peter G. Peterson Institute for International Economics, in Washington. “You could have a very significant shock to traditional consumption patterns and also some important growth effects.” The cost of shipping a 40-foot container from Shanghai to the United States has risen to $8,000, compared with $3,000 early in the decade, according to a recent study of transportation costs. Big container ships, the pack mules of the 21st-century economy, have shaved their top speed by nearly 20 percent to save on fuel costs, substantially slowing shipping times. The study, published in May by the Canadian investment bank CIBC World Markets, calculates that the recent surge in shipping costs is on average the equivalent of a 9 percent tariff on trade. “The cost of moving goods, not the cost of tariffs, is the largest barrier to global trade today,” the report concluded, and as a result “has effectively offset all the trade liberalization efforts of the last three decades.” The spike in shipping costs comes at a moment when concern about the environmental impact of globalization is also growing.

#### High oil prices cause individuals and corporations to improve efficiency.

Gholz and Press, 07 (Eugene and Daryl, Professor of Public Affairs at University of Texas with PhD from MIT, Professor of Government at Dartmouth and PhD from MIT, “Energy Alarmism The Myths That Make Americans Worry about Oil”, 4/05/07, Policy Analysis, No. 589, <http://www.cato.org/pubs/pas/pa-589.pdf>) ALT

Oil prices do not merely affect oil supply; they also play a key role in determining global demand. In the short term, demand does not change much in response to price fluctuations. People need to drive to work and heat their houses even if oil prices soar, so they tend to cut expenses elsewhere rather than go without oil. But higher prices still reduce long-term 3 Oil markets appear more mysterious than they are. demand: as prices increase, companies spend money on more efficient equipment and production processes, and individuals buy more efficient cars and improve the insulation in their houses. Finally, high prices spur investment in equipment that uses nonpetroleum energy sources, reducing the demand for oil.

#### High prices of oil decrease consumption.

Energy Working Group 05 (independently researching forum of engineers and policy makers under the APEC- Asia Pacific Economic Cooperation- umbrella “IMPACT OF OIL PRICES on trade in the APEC region”, October 2005, ABARE Research Report 05.3 for the APEC Energy Working Group, <http://apecenergy.tier.org.tw/database/db/emm7/ImpactOilPricesStudy.pdf>) ALT

The results from scenarios 1 and 2 demonstrate that a sustained increase in oil prices could have significant impacts on APEC economies and their energy sectors. The extent of these impacts on an economy will depend on the economy’s net oil import position and on the economy’s reliance on oil. The impacts are also larger in 2010 as the differential between oil prices in the scenarios and reference case is larger than in 2006 because of the projected fall in real oil prices in the reference case. As a result of the oil price increases in each of the scenarios, there is a decline in oil consumption (relative to the reference case) in all world economies, including in the APEC region (table 7). The percentage decline in oil consumption is larger in economies that are relatively more oil intensive and heavily reliant on oil imports and have large energy intensive manufacturing sectors.

#### Persisting high oil prices are key to the adoption of fuel efficient technologies.

Energy Working Group 05 (independently researching forum of engineers and policy makers under the APEC- Asia Pacific Economic Cooperation- umbrella “IMPACT OF OIL PRICES on trade in the APEC region”, October 2005, ABARE Research Report 05.3 for the APEC Energy Working Group, <http://apecenergy.tier.org.tw/database/db/emm7/ImpactOilPricesStudy.pdf>) ALT

As indicated earlier, one form of emerging transport technology that has attracted increasing interest, particularly in some of the developed APEC economies is the hybrid motor vehicle. Recent increases in hybrid vehicle sales in the United States have shown that hybrid vehicles are gradually becoming competitive with traditional vehicles and that consumers are willing to adopt this new technology. In establishing the hypothetical transport technology scenarios, it is assumed that persistent higher oil prices contribute to the increased adoption of more fuel efficient technologies. Therefore, the two transport technology adoption scenarios are assumed to occur in an environment of extended high oil prices where world oil prices are 60 per cent above reference case levels. To provide a point of comparison, scenario 4 represents the extended high oil price scenario where no additional transport technology improvements are assumed (figure 17).

### A2 Econ

High Oil Good – stock market

Our Energy Policy 11 [Administrator at Our Energy Policy, Economist: High Oil Prices Not (Nescessarily) Bad for the Economy, Post Late 2008]

<http://www.ourenergypolicy.org/economist-high-oil-prices-not-necessarily-bad-for-economy/>

In a Yardeni Research [blog post](http://blog.yardeni.com/2012/02/s-500-and-oil-prices.html) highlighted by an [article in the New York Times](http://www.nytimes.com/2012/03/04/your-money/rising-gasoline-prices-could-soon-have-economic-effects.html?partner=rss&emc=rss), economist Ed Yardeni argued that rising oil prices “may actually be good for the stock market, up to a point.” This is due, in part, to energy sector companies like Chevron and Exxon making up more than 12% of the S&P 500’s market capitalization. Yardeni notes that since late 2008 there has been “a strong positive correlation between energy prices and the stock market.”

If prices continue to rise, however, the odds of that positive effect lasting diminishes. “At some point,” Yardeni told the Times, “you’ll have a negative feedback loop. High energy prices will correct themselves, and if they go high enough, the negative effects will spill over to stocks and the economy.”

#### No impact to higher oil prices – huge spike key

Hutchinson 12 [ MARTIN HUTCHINSON, Global Investing Strategist, Money Morning 4/12/12 <http://moneymorning.com/2012/04/12/high-oil-prices-even-200-oil-wont-cause-a-recession/>]

This time, oil prices are rising from a higher base. The average West Texas Intermediate oil price of $94.87 in 2011 was 31% above 2007's average. It follows that an oil price jump to $147 would not be very economically significant. In this case, we would need a larger spike to have any noticeable effect. Oil prices did spike 101% from 2007's average to the peak on July 3, 2008. A similar rise from 2011's average would take the price of oil to $191 per barrel. If that jump raised energy PCE by the same proportion as in 2008 (starting from 2011's higher energy PCE of 6.07% of total PCE), it would push it up to 7.24% of PCE. This equates to a rise of about $129 billion. If oil touched $200 a barrel, the rise in personal energy expenditures might be around $140 billion. Again, at 0.9% of today's GDP that increase is just not big enough to cause recession in an economy growing even moderately. It's just a little larger than the $118 billion "stimulus" from continuing the payroll tax cut for 2012. It would slow growth, but given that we are currently experiencing growth of around 2%, it would not turn our current growth into decline. With Federal Reserve Chairman Ben Bernanke's zero-interest-rate policies in place until 2014, and the chance of yet more "stimulus," it is indeed possible we will see oil at $200 per barrel. The price could get there gradually, over the next 12-18 months, or it could leap there in one bound, if Iran closed the Straits of Hormuz. That would be very unpleasant, pushing gas prices up to $7 per gallon. But the above calculation shows that on its own $200 oil would not push the U.S. economy into recession. Indeed, we should not expect it to; Europe has suffered from gas prices of $8 to $10 a gallon for several years now. While the European economy has many problems, it seems to survive its gas prices. So we should expect to pay more for gas, but on balance should not expect recession from doing so.

### A2 Oil Shocks

#### No impact to price shocks- market forces are self-correcting.

Gholz and Press, 07 (Eugene and Daryl, Professor of Public Affairs at University of Texas with PhD from MIT, Professor of Government at Dartmouth and PhD from MIT, “Energy Alarmism The Myths That Make Americans Worry about Oil”, 4/05/07, Policy Analysis, No. 589, <http://www.cato.org/pubs/pas/pa-589.pdf>) ALT

In the five major oil supply shocks caused by political disruptions in the past 30 years, market dynamics quickly mitigated the costs borne by consumers. 68 Figure 1 tracks the decline and recovery of world oil production in the five cases: (1) the Iranian oil industry strikes in 1978, (2) the collapse of the Iranian oil industry in 1979, (3) the start of the IranIraq war, (4) the 1990 Iraqi invasion of Kuwait, and (5) the 2002–03 strikes in the Venezuelan oil fields. 69 The cases reveal four key findings. First, in four of the five cases (the exception is the 1979 Iran disruption), major reductions in any country’s oil production quickly triggered compensating increases elsewhere. 70 In all cases, the disruption triggered intense efforts in the disrupted country to restore its output. 71 For example, in 1978 strikes in the Iranian oil industry deprived global markets of nearly 5 mb/d, which was then more than 4 percent of world production. But the world responded quickly, and global production had fully recovered in six months. The outbreak of the Iran-Iraq war removed 3.4 mb/d of Iranian and Iraqi oil from global markets (5.8 percent of global production), but total global supply did not fall by that full amount. Other producers increased their output within the same month, so net global supply only dropped by 4.2 percent.

#### No economic impact to price shocks- investment tools protect producers and consumers.

Gholz and Press, 07 (Eugene and Daryl, Professor of Public Affairs at University of Texas with PhD from MIT, Professor of Government at Dartmouth and PhD from MIT, “Energy Alarmism The Myths That Make Americans Worry about Oil”, 4/05/07, Policy Analysis, No. 589, <http://www.cato.org/pubs/pas/pa-589.pdf>) ALT

Third, international oil markets appear increasingly efficient at replacing disrupted oil supplies, thereby reducing the duration of 13 In four of five cases, oil prices either remained nearly constant or quickly returned to predisruption levels. Iran 1978–79 0% 20% 40% 60% 80% 100% 0 3 6 9 12 15 18 21 Months after Disruption Price Increase Iran-Iraq War 0% 20% 40% 60% 80% 100% 0 3 6 9 12 15 18 21 Months after Disruption Price Increase Gulf War 1990 0% 20% 40% 60% 80% 100% 0 3 6 9 12 15 18 21 Months after Disruption Price Increase Venezuela Strikes 2002–03 0% 20% 40% 60% 80% 100% 0 3 6 9 12 15 18 21 Months after Disruption Price Increase Figure 2 Price Shocks and Recovery after Major Disruptions Note: Price changes are measured in real terms. price spikes. Figures 1 and 2 show that the three most recent disruptions required the least time for markets to adapt—even though one of those three (the 1990 Gulf War) involved the greatest immediate shortfall. Specifically, the invention of new international financial and investment tools since the 1970s has enabled sophisticated spot and futures markets for oil, facilitating quick market adjustments and allowing producers, wholesalers, refiners, and major consumers to smooth risks.

### A2 China

#### No US-China conflict over energy- scenario is exaggerated.

Gholz and Press, 07 (Eugene and Daryl, Professor of Public Affairs at University of Texas with PhD from MIT, Professor of Government at Dartmouth and PhD from MIT, “Energy Alarmism The Myths That Make Americans Worry about Oil”, 4/05/07, Policy Analysis, No. 589, <http://www.cato.org/pubs/pas/pa-589.pdf>) ALT

Fears about the implications of China’s energy policy are greatly exaggerated. First, on the demand side, China’s efforts to reach longterm oil purchase agreements will not affect aggregate global demand for oil; the prepurchase agreements will merely change the patterns of global oil trade (i.e., which specific barrels of oil China consumes) but not the overall level of consumption. The long-term agreements, therefore, will not significantly affect oil prices. Second, on the supply side, China’s leap into the oil exploration and extraction business will either be economically neutral for the United States or, if Chinese investments increase aggregate global supplies, possibly advantageous to the U.S. economy. China’s soaring demand for energy, and its implication for global oil prices, will adversely affect the United States and all other oil consumers (just as our consumption of oil also drives up prices). But there is little to fear from Beijing’s energy policy and no reason for U.S. policymakers to expect, or initiate, the type of competition with China that analysts envision when they describe an international scramble over the “geopolitics of oil.” More broadly, U.S. policymakers should make sure that unwarranted fears that energy competition will breed a Sino-U.S. conflict do not become a self-fulfilling prophecy. In reality, no American interest in oil requires hostile relations with China.

#### Turn: China can lower oil prices.

Gholz and Press, 07 (Eugene and Daryl, Professor of Public Affairs at University of Texas with PhD from MIT, Professor of Government at Dartmouth and PhD from MIT, “Energy Alarmism The Myths That Make Americans Worry about Oil”, 4/05/07, Policy Analysis, No. 589, <http://www.cato.org/pubs/pas/pa-589.pdf>) ALT

In sum, China’s oil policy will not hurt the United States, and it may even benefit the U.S. economy. China’s prepurchase agreements mainly move oil around: they alter trade patterns and dictate which specific barrels of oil arrive at China’s ports; they do not affect the total amount of oil consumed or the market price determined by supply and demand. China may end up being disappointed by its investments in foreign oil fields: Western firms may be unwilling to pay as much as Chinese oil companies to explore and develop those concessions for good reasons. On the other hand, if Chinese investors were shrewd or they simply get lucky and their prospecting expands the world oil supply, the price of oil will drop for Americans, too. In effect, overzealous Chinese exploration could subsidize the rest of the world’s consumers.

### A2 Mexico

#### No impact of price drop on Mexico- diversified economy.

Miller, 10 (Gregory, Professor at Oklahoma State University, Ph.D. in Political Science from The Ohio State University, also taught at College of William & Mary, “The Security Costs of Energy Independence”, April 2010, The Washington Quarterly, <http://csis.org/files/publication/twq10aprilmiller.pdf>) ALT

Mexico has a different story. For one thing, oil accounts for less than 10 percent of its total export revenues. In addition, Mexico actually benefits when global oil prices drop because its main trade partner, the United States which accounts for nearly 90 percent of Mexico’s total exports, is able to purchase more Mexican goods. Because its economy is becoming more diversified and less dependent on the sale of oil, Mexico is likely to withstand a drop in demand for oil, whereas many OPEC states will not be so lucky unless they diversify their economies. Herein lies an important lesson: the more that states develop trade in non-oil sectors, the more the profits from those sectors will offset any loss of oil revenue and eventually promote stability.

### A2 Democracy

#### Loss of oil revenue does not lead to democracy, and even if it did these new governments would be unstable.

Miller, 10 (Gregory, Professor at Oklahoma State University, Ph.D. in Political Science from The Ohio State University, also taught at College of William & Mary, “The Security Costs of Energy Independence”, April 2010, The Washington Quarterly, <http://csis.org/files/publication/twq10aprilmiller.pdf>) ALT

Another counterargument emphasizes some potential benefits of a loss of revenue, namely a reduction in power by certain domestic groups that could facilitate the emergence of democracy in these countries. There are two responses to this argument. First, it is not clear that the loss of oil revenue will automatically bring about democracy. The loss of wealth by those in power rarely leads them to give up power, but more often causes a greater crackdown on the population to prevent challenges to the state’s authority. Iraq, Libya, and North Korea illustrate that the loss of wealth does not lead to a loss of control by those in power. 23 In contrast, diversified economies are more likely to bring about democratic reform, regardless of whether certain groups hold power because of oil or not. Assuming that the logic is correct and these oil-producing states are undemocratic only because of the oil revenue held by a few individuals, there is no reason to believe that the subsequently emerging democratic states would be stable or that they would bring to power individuals and groups friendly to the West. Moreover, newly democratizing states are among the least stable and are more prone to wars. 24 Therefore, even if this counterargument is valid, the results will not alleviate the security concerns discussed in this article and could make them worse. Although there will be numerous benefits of reducing dependence on oil, including possibly democratization, we need to understand and prepare for the risks as well.

### A2 Airlines

#### Already happening – high prices are already hurting profitability

[Chris Owen](http://www.gadling.com/bloggers/chris-owen/) 7/13 Mar 2nd 2011 at 10:30AM

http://www.gadling.com/2011/03/02/airline-profits-hit-by-high-oil-prices-rise-in-fares-possible/

High oil prices cost us at the pump, play into the prices of most consumer goods and will cut 2011 airline profits in half in spite of the recent growth in air travel says a new forecast out today. In a revised profit forecast, International Air Transport Association said it was downgrading its airline industry profit outlook for 2011 to $8.6 billion from the $9.1 billion it had estimated just last December. "This is a 46 percent fall in net profits compared to the US$16 billion earned by the industry in 2010," IATA said in a statement. The new forecasts were based on oil priced at a average of $96 per barrel of Brent crude over the year, compared to $84 a barrel used in the December forecast. The price of oil spiked to $115 today, shy of last week’s high of $120.¶ In February, responding to [unrest in Egypt](http://www.gadling.com/2011/02/05/oil-prices-and-unrest-in-egypt-will-they-affect-travel/), American Airlines added fuel surcharges of as much as $5 each way on many routes with United Continental Holdings Inc. adding a $3 each-way surcharge. At the time, British Airways said they would increase the fuel surcharge they already have in place. Now, with this latest announcement signaling an approaching hit on profits, airline shareholders are already in pain. The 2008 spike in oil prices sent airlines into a 2-year profit tailspin.

### A2 China

#### High Oil Prices good for both US and China-increases cooperation

**Wolverson 11-** Master's degree in public policy from Harvard Kennedy School and was a Fulbright scholar on economic development in Mali and a Fulbright journalism fellow in Germany. (Roya, “Are High Oil Prices Good for U.S.-China Trade?” May 12, http://business.time.com/2011/05/12/are-high-oil-prices-good-for-u-s-china-trade/)//CN

The U.S. trade deficit climbed 6% in March, according to numbers out from the Commerce Department. But the widening trade gap, the highest since June 2010, may not be as worrisome as it seems. Much of the jump has to do with the recent uptick in oil prices, which makes the U.S. bill for oil imports more expensive. But if you take oil prices out of the equation (since they don’t really say much structurally about what’s going on with U.S. trade), things look a lot better. In fact, when it comes to trade with manufacturing-heavy countries like China, in some ways the uptick in oil prices actually plays to the U.S.’s advantage. Even though the trade gap widened, U.S. exports grew at a record 4.7%, their biggest month-over-month gain in 17 years, while the trade deficit with China dropped by 4%. That’s because increased trade with China is driven by exports of U.S. services like insurance, banking, and education (in other words, Chinese families sending their children to U.S. schools), which are far less commodity-intensive than the factory-churned goods that give China its competitive export advantage. The steep rise in commodity prices also helps U.S. export competitiveness by increasing pressure on China to use the yuan’s value to fight inflation, a tool it has so far dismissed due to fears it may tank China’s export machine. The weakening dollar also advantages the U.S., since it makes Chinese goods more expensive in yuan terms. That’s welcome news after the big pow wow between Chinese and U.S. officials that ended today, since China didn’t budge on U.S. pleas to let its currency appreciate more rapidly against the dollar. Of course, too much Chinese inflation is not good for the U.S., because it eats at Chinese household income, which leaves less cash for Chinese citizens to buy U.S. educations and financial products. Ryan Avent notes this on the *Economist*‘s Free Exchange blog: “there seems to be some sense across the rich world that emerging market consumption may power advanced-country growth while debt levels are brought down. But if emerging markets are doing serious battle with inflation, this belief may prove mistaken, and austerity may be more of a drag on growth than estimated.” Indeed, U.S. trade with China is not a zero sum game. U.S. exports depend on the ability of U.S. companies to access financially secure Chinese consumers. The progress U.S. officials made during the U.S. and China Strategic and Economic Dialogue — better access to Chinese business deals and intellectual property protection — will only work if Chinese consumers continue to buy what we sell, and that requires tough structural reforms on both sides. A weak dollar and high oil prices alone won’t cut it.

#### China economy resilient

**Lash 12-**Writer for Reuters, latest news from around the world, covering breaking news in business, politics, entertainment, and technology(Herbert, “China GDP data lifts world, crude oil” July 13th, http://www.reuters.com/article/2012/07/13/us-markets-global-idUSBRE86800J20120713)//CN

(Reuters) - Global stocks and oil prices rose in a relief rally on Friday after Chinese data eased fears of a potential hard landing by the world's second-largest economy and a further blow to worldwide growth. A 7.6 percent reading of gross domestic product growth in China was a hair above the government's expectations, bolstering sentiment across the board in commodities and buoying stock prices. The euro advanced against the dollar for the first time in four days, rebounding from a fresh two-year low plumbed earlier in the day, as investors sought to cover bets against the currency and risk sentiment broadly improved. "The data out of China suggested that things are not all that bad, and that's giving a relief rally," said Randy Frederick, managing director of trading and derivatives with the Schwab Center for Financial Research. "But I think the rally today is a lot stronger than it should be, and I don't expect this to continue for very long. I wouldn't expect the market to close at current levels today." U.S. stocks rose more than 1 percent, with the benchmark S&P 500 index on track to snap a six-day losing streak, even after JPMorgan Chase & Co (JPM.N) posted $4.4 billion of losses from its "London whale" trades. JPMorgan also said it may incur $700 million to $1.7 billion in further losses. The bank's stock rose 5.5 percent to $35.90 as the trading losses cut second-quarter profit by only $471 million from a year earlier, to $4.96 billion. JPMorgan's surge added the most points to the S&P 500 index. Concerns about slowing growth have pressured risk assets in the recent past. "The market was very oversold, so with China looking better than we previously thought, and JPMorgan looking like it has healed itself, things appear contained for the moment," said John Manley, chief equity strategist at Wells Fargo Funds Management in New York. "We're putting in a bottom, not a top." Investors shrugged off a survey that showed U.S. consumer sentiment cooled again in early July to its lowest in seven months as Americans took a dim view of their finances and job prospects. The Thomson Reuters/University of Michigan's preliminary reading on the overall index on consumer sentiment fell to 72.0 from 73.2 in June. Separately, producer prices rose only slightly in June as energy costs dropped, suggesting inflation pressures remain muted. The Labor Department said seasonally adjusted producer prices rose 0.1 percent, a pace that leaves the door open for more efforts from the Federal Reserve to stimulate the economy. The Dow Jones industrial average .DJI was up 163.33 points, or 1.30 percent, at 12,736.60. The Standard & Poor's 500 Index .SPX was up 18.77 points, or 1.41 percent, at 1,353.53. The Nasdaq Composite Index .IXIC was up 38.95 points, or 1.36 percent, at 2,905.14. European shares extended gains, with traders citing speculation of a shift in asset allocation as the jump in U.S. stocks helped the euro to rebound from a two-year low against the U.S. dollar. The euro last traded at $1.2236, up 0.3 percent, rebounding from a mid-2010 low of $1.2160 hit earlier in the session. The FTSEurofirst 300 .FTEU3 rose 1.3 percent to close at 1,042.63. "There is a major asset allocation switch out of Treasury long-end ETFs into European equities happening right now," said Justin Haque, a trader at Hobart Capital Markets. The benchmark 10-year U.S. Treasury note was down 7/32 in price to yield at 1.5012 percent. The euro's rebound also changed sentiment on Italian government debt. Italian yields had jumped after a surprise ratings cut by Moody's highlighted the risk that the debt crisis could potentially engulf the euro zone's third-biggest economy. Moody's warned it could further downgrade Italy's credit rating, now just two notches above junk status, if the country's access to debt markets dried up. Commodities staged a mini relief rally as the Chinese GDP data was not as bad as some had feared. Brent crude oil futures were up $1.75 to $102.82 a barrel. U.S. crude settled up $1.02 at $87.10 a barrel, and gained 3.1 percent for the week. Gold rose, lifted by sharp rallies in equities and commodities, on the Chinese data. Spot gold prices rose $18.31 to $1,590.10 per ounce. The Reuters/Jefferies CRB Index .CRB of 19 commodities rose 1.24 percent to 293.8

#### No impact to oil prices-Reflation

**Emerging Money 12-**analysis of daily trading and market trends are designed to give users an edge in making decisions about global market opportunities(“Can high oil prices actually help global stocks?” February 26, 2012, http://emergingmoney.com/strategy-2/can-high-oil-prices-actually-help-global-stocks/)//CN

Retail investors are nervous about the oil market signaling an end to easy money. But some traders say a gradual upturn in energy prices is not only good for stocks but the goal of long-term central bank policy. Michael Gayed, who has written a number of pieces for emergingmoney.com, points out that there is nothing intrinsically lethal to the world economy in petroleum prices (BNO, quote) at any level — $100, $110 or even higher. [VIDEO OMMITTED] Gayed says it is the rate at which commodity prices swing that can create discomfort for investors and pain for corporate and individual consumers alike. A sharp oil shock like what we saw in the 1970s may have a negative impact on the markets, so the scenario of a protracted war in the Persian Gulf remains a risk factor. However, a more gentle increase in oil prices is actually a sign that years of massive stimulus have actually been working. This is “reflation” at its core. Remember, oil traded more or less comfortably at $100 to $140 in early 2008, the last time Iranian tensions were peaking. Demand destruction did not kick in until crude was well above $140 a barrel. For Gayed, the $3 trillion that the world’s stock markets have created in new wealth in the latest leg upward matches anything on the balance sheets of the Federal Reserve or the European Central Bank. “A rising stock market is now more stimulative to the economy than anything central banks can do,” he says.

#### China’s econ is just fine-cooperation with Japan

**China Daily 12-**English language daily newspaper published in the People's Republic of China(“China's shifting economy promises benefits to Japan”,7-6-2012 , http://www.chinadaily.com.cn/cndy/2012-07/06/content\_15553204.htm)

China's plan to have an increasing amount of its economic growth generated from domestic consumption opens opportunities to Japanese companies and encourages the Japanese to invest in the world's second-largest economy, former Vice-Premier Zeng Peiyan said on Thursday. China resolved, during the recent global financial crisis, to change its sources of economic growth. As a result, the country is "turning into more of a global market and less of a global manufacturing powerhouse", Zeng said. The policy change is "bringing fantastic business opportunities to Japanese companies", he added. Zeng's remarks came during an opening ceremony held for the China-Japan Entrepreneurs Exchange Meeting of the Boao Forum for Asia, which took place in Japan's Yokohama. China is Japan's largest trade partner, and Japan is the third-largest source of China's foreign direct investment, or FDI. By the end of 2011, Japan had $83 billion worth of accumulated investments in China. For years, the majority of Japanese companies that have invested in China have done so because of the low-cost labor they found there. They set up factories and imported raw materials and components from Japan while exporting final products to overseas markets, particularly to developed markets. As Chinese labor costs continue to rise, the world's second-largest economy is planning to have its growth depend more on domestic consumption and less on exports. Japanese companies, meanwhile, are "finding it necessary" to invest more in Chinese research and development and design and technology, similar to what a slew of international companies have done, Zeng said. "This will help the two countries find new sources of economic growth and lead to more cooperation," he said

# Russia – NEG

## Uniqueness

### Russian Growth Now

#### Russian economy strong due to oil profits

**Higgins 12 –** Reporter for Bloomberg news(Tim, , “GM CEO Says Russia Growth Helps Make Up For Europe Losses”, 6/22/12, http://www.bloomberg.com/news/2012-06-22/gm-ceo-says-russia-growth-helps-make-up-for-europe-losses.html)//CN

The alliance of Renault SA (RNO) and Nissan Motor Co. (7201) announced plans in May to take majority control of Russia’s largest automaker, OAO AvtoVAZ. (AVAZ) Separately, Volkswagen AG (VOW) and Ford Motor Co. (F) announced deals last year to increase production in Russia to take advantage of tax incentives for attracting foreign investment. Automakers may import components with zero or 3 percent duties in return for investment agreements to build at least 300,000 cars locally a year. PricewaterhouseCoopers estimates the Russian auto market, driven by improving economic conditions fueled by the oil and gas industries, will grow 7 percent this year and reach 3 million units in the near future, Rick Hanna, global auto leader, said in a telephone interview. “It’s now the second-largest market in Europe behind Germany,” he said.

GM’s investments in Russia have helped mend hard feelings following the U.S. automaker’s decision in 2009 to kill a deal to sell a majority stake of Opel to Magna International Inc. (MG) and OAO Sberbank (SBER), Russia’s biggest lender. Akerson, then a new board member after GM’s U.S. government-backed bankruptcy reorganization, joined with other directors in opposing the Opel sale. “There was a lot of turmoil post-bankruptcy,” Akerson said. “The decision was made prior to the reconstitution of the board and we changed directions. Everything I’ve seen and heard so far, was, ‘OK, that’s past. Past is not prologue.’ They see us investing in plant and equipment and jobs here in Russia. I haven’t gotten any pushback.” The Russian government has set clear tax and regulatory policies, the CEO said. “I was at a breakfast this morning with basically their cabinet and was impressed with the public expression of civility, continuity and constancy,” said Akerson, who participated in the St. Petersburg International Economic Forum. “They talk about taxes. Taxes will be what the taxes are. You don’t have this uncertainty that you see even in the United States.”

#### Russian growth now

**NASDAQ 12-** has the 2nd largest stock exchange in the world (“IBM Targets Growth in Russia - Analyst Blog” 6/22,http://community.nasdaq.com/News/2012-06/ibm-targets-growth-in-russia-analyst-blog.aspx?storyid=149882)//CN

To fund its expansion plans, the company expects to invest $6 million through 2012. IBM will also hire local staff to cater to the growing needs and challenges of its clients in the region. The decision to invest its resources in Russia and CIS regions is supported by the fact that the country's real GDP has increased by 67% since 2000, according to research and analysis firm Economist Intelligence Unit, a business unit of The Economist Group. According to Bloomberg, Russia's economy in the last quarter grew at the fastest pace since the three months ended September 2011. The growth came on account of robust retail sales that offset slower production in mining. The Federal Statistics Service in Moscow noted that Russia's GDP grew 4.9% in the first quarter from the year-ago period. Moreover, IT spending in Russia was $32 billion in 2011, which is expected to rise to $35.5 billion in 2012, according to IDC estimates. Separately, Gartner expects Russia's share of IT spending to be approximately 45% of the total spending in Central and Eastern Europe. The research firm expects IT spending in the region to touch $158 billion this year. Thus, IBM is well on track to capture the billion dollar opportunity that the region presents

### Brink

#### Russia economy already affected by lowered gas prices – on brink

**GWPF 12-** a think-tank in the UK who challenge policies(Global Warming Policy Foundation, “Oil Dependency and the Russian Economy” June 21 http://thegwpf.org/energy-news/6019-oil-dependency-and-the-russian-economy.html)//CN

Some say Russia's government requires oil prices of $120 a barrel to balance the budget, while others say the real figure is as high as $150 a barrel or more. Either way, Russia's economy is already feeling the pain of the recent global decline in oil prices. And there is no guarantee that the oil slump will end any time soon. [Chart Ommitted] Oil dependency is seen as Russia’s biggest weakness. This year’s budget needs an oil price of more than $120 a barrel to balance, lifting the non-oil deficit, the shortfall excluding oil and gas revenues, to 12.5 per cent of GDP. It was below 5 per cent before 2008. ...Oil prices would need to grow by $10 to $15 a year, he adds, otherwise the “budget will not be affordable”, forcing Russia to increase borrowing or reduce spending. Economists have also warned that, with budgetary spending becoming a bigger contributor to growth, and that, in its turn, increasingly funded by oil and gas revenues, Russia is drawing too heavily on its energy wealth. That drives up prices and costs, crowds out private sector investment and makes manufacturing uncompetitive, all classic symptoms of the so-called Dutch disease. This hinders what should be its main policy aim: diversifying the economy away from reliance on extractive industries. \_FT Opinions are mixed over whether Russia's president Putin is serious about facing Russia's many structural problems. But opinions are like rectums: every athol has one. What matters is whether wise and knowledgeable people are willing to place bets on Russia's future, under Mr. Putin, and whether the smart money inside Russia is staying inside Russia -- or is fleeing the country. In fact, capital flight from Russia has recently been described as "torrential," and the brain drain of Russia's best and brightest to Europe, North America, and Israel continues. Russia is desperate for foreign investment in order to maintain its role as an energy superpower. As noted in the chart above, China is a very big investor in Russia, but China lacks the state of the art energy technology which Russia needs. Which means that Russa -- under Putin -- will need to learn to "play nice" with some of the same large western energy companies which it has traditionally ripped off in the past by nationalising profitable energy assets, once developed. There is a reason why large global insurers are reluctant to insure outside ventures and partnerships in Russia. Putin is very ambitious, has made many promises, and aims to spend a lot of oil & gas money. Time will tell whether that money materialises in the quantities planned. If energy prices remain depressed for long, it will not take long for Russia to run through its cash reserves.

## Internal Links

### Internal Link – Oil K2 Russia

#### Russia oil is good unless price drop occurs.

Andomanis 12 (Mark, Forbes Senior Editor, “Russia and Oil: A Likely Source of Future Stability”, 5/8/12, Forbes, <http://www.forbes.com/sites/markadomanis/2012/05/08/russia-and-oil-a-likely-source-of-future-stability/>) ALT

The point is not to predict exactly what oil will cost in 2015, 2020, or 2035: that’s a fool’s errand. The point that I’m trying to make is that one can very easily find eminently mainstream institutions, indeed the EIA is about as mainstream as it gets, which produce forecasts that suggest the Kremlin will, in fact, be able to count on a steadily, if slowly, rising oil price. If the price of oil does, in fact, slowly ratchet up to around $150 a barrel over the next seven or eight years, I would expect that Putin’s hold on power will remain strong since the state will have enough resources to co-opt and/or repress the opposition. It seems to me that analyses of Russia’s economic future are overly focused on oil’s downside risks. These risks are both real and severe and I fully agree with those who argue that a rapid plunge in the oil price will have extremely deleterious consequences for Putin’s hold on power.

#### Oil prices are increasingly key to Putin’s popularity plus Russia’s budget and econ, account for 2/3 of exports.

Schuman 7/5/12 (Michael, TIME Asia Economics correspondent, master of international affairs from Columbia, international relations and political science BA, “Why Vladimir Putin Needs Higher Oil Prices”, 7/5/12, Time Magazine Business Section, <http://business.time.com/2012/07/05/why-vladimir-putin-needs-higher-oil-prices/>) ALT

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.

#### Russian dependency on oil can’t be solved in the near future- at least 10 years.

Aleksashenko 12 (Sergey, “Russia’s economic agenda to 2020”, January 1, 2012, International Affairs: 88: 1 (2012) 31–48, <http://web.ebscohost.com.proxy.lib.umich.edu/ehost/pdfviewer/pdfviewer?sid=4146d0c8-cb9d-4c0c-8fd0-9375f5aec840%40sessionmgr13&vid=2&hid=15>, viewed with EbscoHost) ALT

Russia’s dependence on the price of oil poses another significant medium-term risk. Today, two-thirds of Russia’s exports and almost half of its federal revenues are tied to the oil price. Sales and purchases of foreign exchange represent the single instrument used by the Russian Central Bank (CBR) to manage the money supply (except in times of crisis). Given current spending and investment trends, Russia’s budget and balance of payments will stay balanced only if the oil price continues to rise. The economic history of the USSR and Russia over the past 40 years demonstrates clearly the real dependence of the country’s economic dynamics on the level of oil prices. Certainly, it will not be possible to overcome this dependence within a year, or even within three or ten years. But in any analysis of the economic possibilities and challenges facing Russia, and in the consideration of different scenarios for the country’s future prospects, it is essential to pay serious attention to the limitations arising from this dependence and the complications to which they in turn give rise.

#### Oil prices key to basic goods distribution- low prices ruin value of Russian currency.

Aleksashenko 12 (Sergey, “Russia’s economic agenda to 2020”, January 1, 2012, International Affairs: 88: 1 (2012) 31–48, <http://web.ebscohost.com.proxy.lib.umich.edu/ehost/pdfviewer/pdfviewer?sid=4146d0c8-cb9d-4c0c-8fd0-9375f5aec840%40sessionmgr13&vid=2&hid=15>, viewed with EbscoHost) ALT

In parallel, the Russian economy has become a more and more active importer, its ratio of imports to GDP steady at about 17–18 per cent since 2000. Whereas after the crisis of 1998 it took five years for imports to regain their pre-crisis level, after the crisis of 2008 it took only one and a half years, falling to 15 per cent in mid-2009 but recovering by autumn 2010. Today, the Russian economy depends critically on imports in all sectors, from foodstuffs and medicines to cars, machinery and military equipment. 11 As a result of those trends, the Russian trade balance remains positive but declining (23 per cent of GDP in 2000 but 10 per cent of GDP in 2010–11); excluding exports of hydrocarbons it is negative and steady (growing to 7.5–8 per cent of GDP in 2010–11). Such a situation may be sustained as long as oil prices are constantly rising; as soon as oil prices stabilize, let alone fall, the current account surplus of the Russian balance of payments starts to shrink quickly. Recent Russian economic history demonstrates clearly that, as soon as the current account surplus drops below 1 per cent of GDP, a severe financial crisis and rouble devaluation are all but inevitable. With the oil price at its current level, and fairly modest import growth (20–25 per cent year on year) Russia may have just five to six quarters before this occurs again. If the oil price were to fall by another $10–20 per barrel the outlook would be even worse. But what is more important is that this balance of payments instability may become permanent, creating extra volatility in the rouble exchange rate.

#### Russian oil revenue key to budget and indirect econ growth.

Aleksashenko 12 (Sergey, “Russia’s economic agenda to 2020”, January 1, 2012, International Affairs: 88: 1 (2012) 31–48, <http://web.ebscohost.com.proxy.lib.umich.edu/ehost/pdfviewer/pdfviewer?sid=4146d0c8-cb9d-4c0c-8fd0-9375f5aec840%40sessionmgr13&vid=2&hid=15>, viewed with EbscoHost) ALT

Still, one can hardly attribute this budgetary strength entirely to the economic policy of the Russian authorities. The main source of budgetary revenues was, of course, proceeds from hydrocarbon exports, thanks to a rise in prices on world markets. The value of oil and gas exports in 2008 ($310 billion) was ten times the level of 1999 ($31 billion), and taxation of export revenues in Russia has been arranged in such a way that additional proceeds from any marginal increase in the oil price (no less than 85 per cent above $25 per barrel; according to some experts, up to 90–92 per cent above that level) goes to the federal (mainly) and regional budgets. Besides their direct influence on budgetary incomes, oil proceeds have exercised a substantial indirect effect on economic growth. Thus, even if no more than 1.5–2 per cent (out of 7 per cent average annual growth in 2000–2008) of overall expansion could be attributed directly to growth in the oil and gas industry, another 3–4 percentage points derive from its indirect effects, in the form of an influx of external finance resulting in a rapid expansion of internal demand.

#### Oil prices have reverse causality with GDP, inflation- VAR modeling proves.

Ito 10 (Katsuya, Economics Professor at Fukuoka University, “The impact of oil price volatility on the macroeconomy in Russia”, November 2010, © Springer-Verlag, <http://www.springerlink.com.proxy.lib.umich.edu/content/0421016g06272q31/fulltext.pdf>, accessed through ProQuest PAIS International) ALT

In this paper, using co-integration analysis and impulse response functions, we have attempted empirically to assess to what extent oil price increases affect inﬂation rate, real effective exchange rate and real GDP in Russia. The analysis leads to the ﬁnding that a 1% increase (decrease) in oil prices contributes to the growth (decline) in real GDP by 0.44% in the long run. Likewise, we ﬁnd that in the short run (4 quarters) rising oil prices not only stimulate inﬂation and economic growth negatively and positively, respectively, but also induce real effective exchange rate appreciation. Overall, these results lead to the conclusion that oil prices play a major role in the Russian economy like a double-edged sword. Inevitably, the economy is greatly vulnerable to oil price volatility. Given the economic damage in case of falling oil price, it seems reasonable to suppose that the country needs to diversify its key industries and enhance the competitiveness of non-energy sectors by increasing foreign direct investment (FDI) from the rest of the world, driven by the improvement of investment environment through the World Trade Organization (WTO) accession. Notwithstanding the data limitations, this study may provide some insight into the relationship between oil price and macroeconomic variables in Russia.

#### Oil is a key buffer zone for the budget

[Jason Bush](http://blogs.reuters.com/search/journalist.php?edition=uk&n=jason.bush&) 7/11 MOSCOW | Mon Jul 2, 2012 11:22am BST
<http://uk.reuters.com/article/2012/07/02/uk-russia-oil-idUKLNE86102820120702>

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

#### Oil slowdown would collapse the economy

[Jason Bush](http://blogs.reuters.com/search/journalist.php?edition=uk&n=jason.bush&) 7/11 MOSCOW | Mon Jul 2, 2012 11:22am BST
<http://uk.reuters.com/article/2012/07/02/uk-russia-oil-idUKLNE86102820120702>

Despite these buffers, most economists expect that a sustained fall in the oil price would cause a significant slowdown in Russia's economic growth - still a surprisingly resilient 4.2 percent in May.¶ "Between $70 and $80 per barrel you will have a recession," said Westin from Aton.**¶** Russia's ability to maintain government spending is limited by the so called non-oil deficit - a measure of the underlying state of the budget once oil taxes are removed - that has ballooned from 5 percent of gross domestic product in 2008 to over 10 percent this year.¶ Even before the latest decline in the oil price, the International Monetary Fund and World Bank were urging Russia to scale back this underlying deficit by cutting down on bloated government spending.¶ In a recent interview with Reuters, Russia's deputy prime minister Igor Shuvalov vowed that while the government intended to use its reserves to maintain expenditures this year, next year's budget would be "very frugal, tight and responsible".¶ That implies that sooner or later, falling oil prices will force cutbacks that will hit the pockets of ordinary Russians.**¶** "The silver lining of a failing oil price is that it does increase the urgency of social reform and budget cuts," says Kingsmill Bond, chief Russia strategist at Citigroup.¶ (Additional reporting by Andrey Ostroukh and Darya Korsunskaya; Editing by [Douglas Busvine](http://blogs.reuters.com/search/journalist.php?edition=uk&n=douglas.busvine&) and Anna Willard)¶

#### Reduction in oil prices causes recession in Russian economy- need 120$ a barrel to balance budget

**Buckley** **6/20/12** Neil Buckley Financial Times Eastern European editor prior to this he covered retail and luxury goods, travel & hotels, consumer products, aerospace and defense, construction and engineering, building materials and manufacturing “Economy: Oil dependency remains a fundamental weakness” June 20, 2012 <http://www.ft.com/cms/s/0/438712b2-b497-11e1-bb2e-00144feabdc0.html#axzz20BM2zIhh>

Moscow’s dollar-denominated stock market index is down more than 20 per cent since this year’s mid-March peak, while the rouble has fallen 13 per cent against the dollar. Is Russia’s economy again headed for a fall? Investors might be forgiven for fearing it is 2008 all over again. That year, the stock market began a seven-month, 80 per cent decline from peak to trough, as oil and commodity prices slumped, followed by the collapse of Lehman Brothers in September. Russia’s economy went on to shrink by 7.8 per cent in 2009, the deepest recession of any G20 country. The recent market slides reflect a 20 per cent decline in Brent crude prices since March, which reached $100 a barrel by early June, and intensifying concerns that Greece could crash out of the eurozone, dealing a Lehman-style shock to the global economy. But many analysts say the recent falls are an overreaction typical of Russian markets. The country is in many ways less vulnerable to external shocks than it was four years ago, even though it has become ever more dependent on oil prices. Charles Robertson, global chief economist at Renaissance Capital, the Moscow-based investment bank, says: “In 2008, markets priced Russia as if it was going to offer a repeat of 1998,” referring to the 1990s default on domestic debt. “Now, the markets are pricing Russia like it’s going to be 2008 again.” The foreign debt of banks and companies is much lower than it was four years ago, making the economy less susceptible to a sudden halt to financing and the macroeconomic position also looks robust. Russia has foreign exchange reserves of $500bn, a current account surplus last year of more than 5 per cent of gross domestic product, and public debt below 10 per cent of GDP. Growth was a respectable 4.3 per cent in both 2010 and 2011, and the International Monetary Fund is forecasting 4 per cent growth this year and next. Russia can, of course, never be immune. Sberbank, the country’s biggest bank, warned last month that, if Greece withdrew from the euro in the final quarter of 2012 in an “unregulated” way, Russia’s GDP would contract 2.1 per cent next year. Renaissance Capital says an “orderly” Greek exit would prompt a modest slowdown in Russia’s growth to 2 per cent this year and 2.9 per cent next; a disorderly exit would cause a mild 2013 recession of 0.2 per cent. If Spain also left the euro, Renaissance forecast that Russian output would decline 2.7 per cent this year and 5 per cent in 2013. What is notable about all those forecasts is that they are less severe than Russia’s 2009 recession. But some analysts are more cautious. Russia’s Higher School of Economics warns that if a global slowdown reduced oil prices even to $80 a barrel, the government would quickly burn through its $60bn rainy-day reserve fund to meet its budget obligations. Oil dependency is seen as Russia’s biggest weakness. This year’s budget[Russia] needs an oil price of more than $120 a barrel to balance, lifting the non-oil deficit, the shortfall excluding oil and gas revenues, to 12.5 per cent of GDP. It was below 5 per cent before 2008. Returning president Vladimir Putin, made some costly election promises which totalled about Rbs10tn ($309bn) by 2018, even excluding ambitious military spending increases, notes Sergei Aleksashenko, a former deputy central bank governor, now director of macroeconomic studies at the Higher School. Oil prices would need to grow by $10 to $15 a year, he adds, otherwise the “budget will not be affordable”, forcing Russia to increase borrowing or reduce spending. Economists have also warned that, with budgetary spending becoming a bigger contributor to growth, and that, in its turn, increasingly funded by oil and gas revenues, Russia is drawing too heavily on its energy wealth.

### Econ K2 Political Stability

#### Putin’s campaign promise means oil prices increasingly key- solves riots and econ.

Kramer 5/16/12 (Andrew, “Putin Needs Higher Oil Prices to Pay for Campaign Promises”, 5/16/12, New York Times, <http://www.nytimes.com/2012/03/17/business/global/vladimir-putins-big-promises-need-fueling-by-high-oil-prices.html>) ALT

In American presidential politics, high oil prices are a problem. For Vladimir V. Putin’s new presidential term in Russia, they will be a necessity — crucial to fulfilling his campaign promises to lift government spending by billions of dollars a year. The reality of his ambitious spending proposals is setting in. But doing that without busting the Kremlin’s budget would require oil to reach and sustain a price it has never yet achieved — $150 a barrel, according to one estimate by Citigroup. No wonder economists who specialize in Russia are skeptical. (On Friday, Russia’s Ural Blend export-grade oil was trading at $120 on the global spot market.) “It’s very hard to overestimate how vulnerable the Russian economy is to external pressures” from the oil price, Sergei Guriev, the rector of the New Economic School in Moscow, said in a telephone interview. “That vulnerability is huge, which is why Russia must be very vigilant. The spending is a risk.” The promised spending is also ambitious. Mr. Putin has laid out a program of raising wages for doctors and teachers, padding retirement checks for everyone and refurbishing Russia’s military arsenal. The oil-lubricated offerings would even include a population premium: expanding the popular “baby bonus” payments the Russian government provides to mothers, to include a third child. The payment, of up to $8,300 for housing or baby-related expenses, now comes as an incentive only with each of the first two children. The additional cost of the expanded baby benefits alone will total $4.6 billion a year, according to an estimate by the Higher School of Economics in Moscow. Most of Mr. Putin’s spending promises came at least partly in response to the street demonstrations by young and middle-class protesters in Moscow and other big cities challenging his authority in the weeks leading up to the March 4 election. His apparent aim was to shore up support from the rest of Russia: poorer and rural parts of the country, and from state workers and the elderly. The repercussions of his campaign promises, and an earlier commitment on military spending, could be felt for years to come, giving price swings in oil a bigger role than ever on the Russian economy.

#### Oil prices key to Russian political stability.

Wagstl 5/5/12 (Stefan, FT's emerging markets editor. He has been covering emerging markets for over 20 years, and was previously central and east Europe editor, New Delhi bureau chief, and Tokyo bureau chief for the FT. “Oil prices: the key to Putin’s future”, 5/5/12, Financial Times, <http://blogs.ft.com/beyond-brics/2012/03/05/oil-prices-the-key-to-putins-future/#axzz20LdJE9uY>) ALT

The key lies in the economy. Before the 2008 crisis, the federal budget balanced with an oil price of below $50 a barrel. This year, the figure is around $120. And that is before Putin considers the lavish campaign promises made to boost everything from pensions to army pay. To put it crudely, the Putin machine can’t run without rising oil prices. High prices aren’t enough, because the moment more money comes in, the more is spent – and the more is embezzled. So prices have to keep going up to accommodate the ever-growing demand. Politically, it buys acquiescence. Economically, it increases the dependence on oil and undermines efforts to reform the economy, boost new industries, and fight corruption.

#### Economic decline leads to political instability- Putin protests spread.

Kramer 5/24/12 (Andrew, “Putin Ally Warns of Political Fallout if Economy Falters”, 5/24/12, The New York Times, <http://www.nytimes.com/2012/05/25/business/global/russias-aleksei-kudrin-warns-of-fallout-from-economic-crisis.html>) ALT

The former minister, Aleksei L. Kudrin, made the remark while presenting a report that also predicted a period of “destabilizing” politics if incomes declined in Russia. An economic downturn would most likely swell the ranks of protesters who opposed the recent re-election of Vladimir V. Putin as president and could spread the movement to rural areas from cities, where it has been centered until now, Mr. Kudrin said.

### 2NC Credit Downgrade Scenario

#### Without high oil prices to sustain budget, Russia faces credit downgrade.

Kramer 5/16/12 (Andrew, “Putin Needs Higher Oil Prices to Pay for Campaign Promises”, 5/16/12, New York Times, <http://www.nytimes.com/2012/03/17/business/global/vladimir-putins-big-promises-need-fueling-by-high-oil-prices.html>) ALT

“Putin made large spending commitments,” the Fitch rating agency said in a statement released the day after the election. “The current high price of oil cushions Russia’s public finances,” Fitch said. “But in the absence of fiscal tightening that significantly cuts the non-oil and gas fiscal deficit, a severe and sustained drop in the oil price would have a damaging impact on the Russian economy and public finances and would likely lead to a downgrade” of the nation’s credit rating. As Mr. Putin’s spending promises started to be introduced in January, Fitch altered Russia’s outlook to stable, from positive. Mr. Putin has defended the proposed spending as necessary and just, given the hardship of teachers and other public sector workers in the post-Soviet years. “A doctor, a teacher, a professor, these people should make enough money where they work so they don’t have to look for a side job,” Mr. Putin wrote in a manifesto published during the campaign.

#### Oil price decline leads to awful credit downgrade- no way to balance budget.

Reuters 5/27/12 (“Standard and Poor’s warns Russia on oil price risks”, 5/27/12, Al Arabiya News, <http://www.alarabiya.net/articles/2012/03/26/203282.html>) ALT

Standard and Poor’s warned Monday it may cut Russia’s debt rating in case of a drop in the price of oil because of its “huge impact” on the economy and president-elect Vladimir Putin’s campaign promises. The global ratings agency said a $10 decline in the global price of oil would lead to a 1.4-percent of gross domestic product drop in government revenues. It estimated that Russia would need an average oil price of $120 per barrel this year to keep the budget balanced − slightly above the $117 figure given by the government. Settlement prices for Urals grade oil futures the government uses as a reference hovered around $125 on Monday. “This high oil price supports the government’s expenditure levels for now, S&P said. “However, spending pressures, resulting for example from an aging population or to implement a significant part of the spending promises made during the presidential election campaign, will likely fuel the need for rising revenues.” It said that a drop in the price of oil to $60 would see Russia’s long-term debt rating drop three notches from its current level of BBB to the second-lowest investment grade issued by the New York-based firm.

#### Downgrades scare off investors.

Yousuf 12 (Hibah, CNN Senior Staff writer, “Stocks slump on eurozone downgrade fears”, 1/13/12, CNN, <http://money.cnn.com/2012/01/13/markets/markets_newyork/index.htm>) ALT

While the market has been anticipating S&P's downgrades given the rating agency's warning, the actual news is still a harsh reminder for investors who have grown optimistic about Europe moving toward a solution. "Investors have been getting more confident, and the market has had some positive momentum on hopes that Europe is making some headway," said Chris Kichurchak, vice president at Strategic Wealth Partners. "The downgrades would bring us back to the reality that the financial world is a messed-up place right now." Investors were also on edge after lackluster earnings from JPMorgan Chase, the first of the big Wall Street banks to deliver fourth-quarter results.

#### Investors key to econ growth and political problems.

Aleksashenko 12 (Sergey, “Russia’s economic agenda to 2020”, January 1, 2012, International Affairs: 88: 1 (2012) 31–48, <http://web.ebscohost.com.proxy.lib.umich.edu/ehost/pdfviewer/pdfviewer?sid=4146d0c8-cb9d-4c0c-8fd0-9375f5aec840%40sessionmgr13&vid=2&hid=15>, viewed with EbscoHost) ALT

In the years to come, slowing economic growth will be the main challenge for the next Russian president. And although on the face of it the rate of growth is an economic problem, for Russia it is above all a political problem. The economy cannot grow without investment, and catch-up growth demands investment at a higher level. It is considered that in developing economies investment should make up 25–30 per cent of GDP, yet in Russia the level is no higher than 21–22 per cent. The necessary increase in the rate of investment is impossible in Russia without radical improvements to the investment climate—Russia has been low and often falling in recent years in all international rankings and comparisons—and that requires political reform. 6 Active opening of the economy and a greater effort to attract foreign investment are also needed.

#### And downgrade magnifies the impacts- investors key to oil.

Westbrook 12 (Jesse, staff writer, “Russia Oil Output Relies On Foreign Investment, Sechin Tells WSJ”, 4/22/12, Bloomberg News, <http://www.bloomberg.com/news/2012-04-22/russia-oil-output-relies-on-foreign-investment-sechin-tells-wsj.html>) ALT

Russia will need foreign investment from companies including Exxon Mobil Corp. (XOM) to maintain its position as an oil superpower, the Wall Street Journal reported, citing an interview with Deputy Prime Minister Igor Sechin. As much as 40 percent of Russia’s oil output will come from Arctic waters and the Black Sea by 2030, Sechin said in an interview given on April 18 and reported on the Journal’s website yesterday. Russia isn’t extracting oil from those sources and will need foreign investment to do so, the Journal cited Sechin as saying.

#### Russia needs investors to boost economy.

Chong 12 (Tim, Reuters staff writer, “Consumer spending not oil to boost Russian growth”, 3/30/12, Russia Times, <http://rt.com/business/news/russia-goldman-sachs-forecast-876/>) ALT

Growing investment would be the main driver for the Russian economy. Retail sales in Russia grew 8% in the last 6 months and are expected to grow further. Boosting investment is the key issue in pushing forward Russian economy, stressed Goldman Sachs. But some analysts are sceptical this goal is easily achievable. Despite the fact that investment flow to Russia grew 7%, the capital outflow still hampers growth. Recent capital outflow was determined by political uncertainty ahead of the elections and it should reverse in the upcoming months, according to Yaroslav Lissovolik, the chief economist at Deutsche Bank. “It is possible for Russia to have net capital inflows starting from the second half of the year,” agrees Lissovolik. “In order to have it Russia needs a stronger presence at capital markets, hopefully the Eurobond issue would play its role in this regard.”

### A2 New Budget Solves

#### New budget doesn’t solve- can’t fully address issues- and harsher measures can’t be kept up.

Reuters 7/6/12 (“Russia tightens budget to reduce oil price risk”, 7/6/12, <http://www.reuters.com/article/2012/07/06/russia-budget-idUSL6E8I6A1Y20120706?feedType=RSS&feedName=usDollarRpt&rpc=43>) ALT

Russia's plan to keep a tight grip on spending does not fully address concerns about its dependence on oil prices. The International Monetary Fund and World Bank have called on Russia to reinstate a fiscal rule under which the non-oil deficit, a measure of the fiscal stance excluding oil taxes, would have been reduced to below 5 percent of GDP by mid-decade, from above 10 percent of GDP today. Under the latest budget plan, the non-oil deficit would decline only gradually, to 10.1 percent of GDP 2013 and 8.6 percent of GDP by 2015, Medvedev said. "Despite the small (budget) deficit, the size of the non-oil deficit remains at a high level," he said. Analysts said the tough fiscal plan may also be hard to implement in practice and subject to future revision. "A compromise will be reached at some point between the variants (proposed by) the Ministry of Finance and the variants of other ministries, which want to get higher spending," said Yulia Tsepliaeva, chief Russia economist at BNP Paribas.

### A2 Resiliency

#### Their evidence is inconclusive- Russia’s economy is only resilient in a world with stable oil prices.

Bergval 6/12/12 (Daniel, Economist at SEB (a Swedish Bank Investor), Senior administrative officer at Ministry of Finance, Sweden, Project manager at OECD “Russia: Resilient So Far”, 6/12/12, SEB Economics Insight: Macro Update, 96797299-SEB-report-Russia-resilient-so-far.pdf) ALT

Even though Russia is not immune to the crises in the euro zone, the economy has been resilient so far. GDP growth during Q1 2012 came in at a strong 4.9% compared to a year earlier (Chart 1) and indicators do not point to an imminent weakening (Chart 2). The consensus estimate has become more positive in the past quarter. We are sticking to our relatively positive view, as long as oil prices stay at roughly the levels of today (Chart 3). We expect GDP to grow by 3.8 and 4.1% in 2012 and 2013, respectively, unchanged since our previous forecast and slightly above consensus for 2013. High oil prices will fuel government revenue – creating room for fiscal policy, exports and other parts of the economy such as capital spending and consumption. Our forecast is that oil prices will average USD 113 per barrel in 2012 and USD 120 in 2013. There are downside risks, however. A more severe than expected downturn in the euro zone could push oil prices further down, hurting exports, the current account and government finances and increasing pressures on the banking system. Oil prices are currently below our average forecast for 2012 but are expected to rise later this year.

#### Absent high oil prices Russian economic collapse is inevitable

**Finacial Times 2012** “Putin 2.0: any different for investors?” <http://blogs.ft.com/beyond-brics/2012/05/07/putin-2-0-any-different-for-investors/#ixzz1uHIpzeK2>May 7, 2012 Stefan Wagstyl is the FT's emerging markets editor. He has been covering emerging markets for over 20 years, and was previously central and east Europe editor, New Delhi bureau chief, and Tokyo bureau chief for the FT.

The markets weren’t kind to Vladimir Putin as he was sworn in as Russia’s president. With investors worried about everything from China, oil, US jobs and the French elections, there was little enthusiasm in the Moscow markets to greet the new president. Stocks and the rouble both slipped on Monday, by 0.4 per cent and 1 per cent respectively, dragged down by the decline in oil. Fund managers clearly had other issues on their mind. But they’re also wary of Russia. The bulls can put together a persuasive story: Putin 2.0 cannot run the economy as he did in his first two presidential terms in 2000-8 or as prime minister in 2008-12 because he can no longer rely on rapidly rising oil prices. At around $117 a barrel for Urals blend, the Russian benchmark, crude is nearly five times costlier than it was at $24 a barrel in 2000. Even if prices rise further, they are unlikely to increase at the same speed. Therefore, so the bull argument goes, Putin must pursue economic reform, including market liberalisation, privatisation, reducing red tape and fighting corruption. Otherwise Russia cannot generate the economic growth needed to transform itself into a fully-functioning modern society. Finance minister Anton Siluanov said on Monday Russia required growth of 5.6 per cent annually, (not the 3.4 per cent forecast by the government for 2012). Lavish public spending increases have in the past five years raised three-fold the government’s break-even price for balancing the budget to $117 a barrel. At the same time, the beneficiaries of this largesse have been buying more imports. So as well as fiscal deficits, Russia could face current account deficits unless oil keeps climbing. Renaissance Capital estimates that the current account could be in deficit as soon as 2014 with $100 a barrel oil. At $90 it would be next year. Meanwhile, the protests in the streets aren’t revolutionary in scale but they show that even well-off people who can thank Putin for the money in their wallets, aren’t satisfied – they want more. They want political participation. They also don’t want the shame of living in one of the world’s most corrupt countries. So, say the bulls, Putin will change because he must. At the age of 59, he will be thinking of his legacy, and he won’t want to be remembered as the man who created a historic opportunity to modernise his country – only to waste it. Not so fast, reply the bears. We have heard this before. For example, in 2008. The newly-elected president Dmitry Medvedev generated high hopes – at least among bulls – that he was a moderniser. Even if he wasn’t going to transform authoritarianism into democracy overnight, he would liberalise the economy and – a big point for him – boost the rule law. It didn’t turn out that way. It became increasingly apparent that the new president was little more than Putin’s poodle. Investors who bought the story were wiped out because the 2008 global crash came along – and Russian equities plunged further and faster than most others. The $-based RTS index fell 80 per cent peak-to-trough, and even now stands 40 per cent off its peak. So this time around, fund managers will be rightly wary of betting on the new administration simply because it is new – especially as it isn’t new. As Chris Weafer, equity strategist at Troika Dialog, the Moscow investment bank, told beyondbrics: Investors say, ‘Yes, Russia’s a good market. In politics, let’s see what happens. But what really concerns me is 2008.’ The collapse in the RTS in 2008 is remembered. People say it’s ‘show me the money time’

#### Russia’s economy is fragile- Oil price drops devastate the economy

**Goryunov 2012** Felix Goryunov is a Moscow-based economic journalist who has been covering international economic and trade issues for more than 30 years. “Russia Needs An Economic Strategy If It Wants To Compete With The Rest Of The BRICS” January 31st http://articles.businessinsider.com/2012-01-31/europe/31008426\_1\_russian-economy-gdp-industrial-production/2#ixzz20FnDnq86

Since 1992, China’s GDP increased 5.3 times, India’s rose by 3.5 times and Brazil’s more than three. It is noteworthy that this growth went hand-in-hand with the structural diversification of economies, renovation of their industrial base and infrastructure as well as an expansion of purchasing power, social services and public welfare. But what about Russia? During the same time span, Russia suffered an industrial and technological degradation that was more devastating than its losses in World War II. As a result, Russia reached its 1990 GDP level only in 2007 while the volume of industrial production remains less than in the Soviet era. In terms of GDP estimated in PPP by the IMF, Russia is now number six in the world, while China is second. In contrast to China and the other BRICS members, which are steadily increasing industrial production, the main drivers of the Russian economy continue to be domestic consumption and exports of raw materials. Most Russian enterprises are not expanding for a lack of fixed investment. (Although the extraction, metals and defense industries are exceptions here). The Russian government dreams of raising fixed investment to 25 percent of GDP, whereas in China its share is already 45 percent of GDP. The outflow of capital from Russia ($85 billion in 2011) is more than twice as big as direct foreign investment (about $36 billion). Even a balanced budget, a current account surplus and sizable hard currency reserves (about $500 billion at the end of 2011) can’t guarantee Russia’s technological resurgence and higher competitive leverage. The poorly diversified economy, addicted to imports of high-tech goods and even some agricultural products, makes Russia fully dependent on the whims of the world commodities markets. The country may face a slump even this year if the world oil prices fall below $60 per barrel. A repetition of the serious contraction of Russia’s GDP in 2009 ( -7.8%) after a sharp decrease in oil prices is very likely, and last September, the World Bank already projected a slowing of GDP growth in 2012 from 4.4 percent in 2011 to around 3.5 percent

### A2 Budget Reserves

#### Dependency still a problem- reserves can’t solve budget obligations.

Buckley 6/20/12 (Neil, General Manager at Renard Resources Ltd, “Economy: Oil dependency remains a fundamental weakness”, 6/20/12, Financial Times, <http://www.ft.com/intl/cms/s/0/438712b2-b497-11e1-bb2e-00144feabdc0.html#axzz20FrHhRBX>) ALT

But some analysts are more cautious. Russia’s Higher School of Economics warns that if a global slowdown reduced oil prices even to $80 a barrel, the government would quickly burn through its $60bn rainy-day reserve fund to meet its budget obligations. Oil dependency is seen as Russia’s biggest weakness. This year’s budget needs an oil price of more than $120 a barrel to balance, lifting the non-oil deficit, the shortfall excluding oil and gas revenues, to 12.5 per cent of GDP. It was below 5 per cent before 2008. Returning president Vladimir Putin, made some costly election promises which totalled about Rbs10tn ($309bn) by 2018, even excluding ambitious military spending increases, notes Sergei Aleksashenko, a former deputy central bank governor, now director of macroeconomic studies at the Higher School. Oil prices would need to grow by $10 to $15 a year, he adds, otherwise the “budget will not be affordable”, forcing Russia to increase borrowing or reduce spending.

**Russia’s budget depends on high oil prices**

**Korsunskaya and Bush 12-** Darya is a writer for the Moscow branch of Reuters, and Jason is a journalist for Reuters(Darya and Jason, “UPDATE 1-Russain budget banks on firm oil prices July 9, 2012 , http://www.reuters.com/article/2012/07/09/russia-budget-idUSL6E8I9AUO20120709)//CN

\* Budget break-even oil price to stay above $100 \* Revenue and spending projections cut by $10 billion in 2013 \* Oil price seen at $97 in 2013, deficit at 1.5 pct of GDP By Darya Korsunskaya and Jason Bush MOSCOW, July 9 (Reuters) - Russia's federal budget will only balance if oil prices to hold above $100 per barrel until at least 2015, according to a draft three-year budget seen by Reuters on Monday. The budget arithmetic implies that despite efforts to rein back spending, public finances will remain vulnerable to a fall in international energy prices - the Achilles' heel of the commodity-dependent economy. The budget plan incorporates generous promises made by Vladimir Putin, before his election in March as president, to increase public sector pay and social benefits, requiring steep cutbacks in investments in infrastructure and education. Both revenue and expenditure projections have been cut by around $10 billion in 2013, compared with the previous budget plan. Nevertheless, the budget's break-even oil price will decline only gradually, to $105.4 per barrel in 2015, down from $116.2 per barrel in 2012. The budget plan makes no changes to the government's previous oil price forecasts, on which revenues are calculated. It assumes an oil price of $97 per barrel in 2013, $101 per barrel in 2014, and $104 per barrel in 2015. At these oil prices, Russia expects a deficit of 1.5 percent of gross domestic product in 2013, falling to 0.1 percent of GDP in 2015. Overall public debt would reach a modest 14.4 percent of GDP by 2015. Global oil price are notoriously volatile and the budget figures imply that a new fiscal rule, designed to base budget planning on the long-run average oil price over preceding years, will not be fully enforced until 2015. "The lack of clarity regarding the budget rule and the multiple redrafting of the plan for expenditures are undermining the Cabinet's overall credibility," Alfa Bank analysts said in a note on Monday. Alexander Morozov, chief Russia economist at HSBC, noted that the budget draft is the first time since 1998 that Russia has revised down spending plans. "From the fiscal stability and public debt perspective it is definitely good news that positively surprised us," he said in a note. However, Morozov warned that the plans to keep a tight grip on spending would be hard to implement, and would only moderately reduce the dependence of public finances on high oil prices even if fully adopted. London-based consultancy Capital Economics also expressed fears that the new budget draft was insufficiently tough, leaving Russia exposed to a sharp fall in the oil price. "We think much more needs to be done in order for the Russian public finances to return to a sustainable path," analyst Liza Ermolenko wrote in a note. **[CHART OMMITED]**

**While precautions have been made, Russia still needs high gas prices to maintain budget**

**Buckley 12-** Business Journalist of the Year in the 2004 British Press Awards, formerly Moscow Bureau Chief (Neil, “Economy: Oil dependence still remains a fundamental weakness” June 20,2012 , http://www.ft.com/cms/s/0/438712b2-b497-11e1-bb2e-00144feabdc0.html#axzz20GVdHVAp)//CN

Moscow’s dollar-denominated stock market index is down more than 20 per cent since this year’s mid-March peak, while the rouble has fallen 13 per cent against the dollar. Is Russia’s economy again headed for a fall? Investors might be forgiven for fearing it is 2008 all over again. That year, the stock market began a seven-month, 80 per cent decline from peak to trough, as oil and commodity prices slumped, followed by the collapse of Lehman Brothers in September. Russia’s economy went on to shrink by 7.8 per cent in 2009, the deepest recession of any G20 country. The recent market slides reflect a 20 per cent decline in Brent crude prices since March, which reached $100 a barrel by early June, and intensifying concerns that Greece could crash out of the eurozone, dealing a Lehman-style shock to the global economy. But many analysts say the recent falls are an overreaction typical of Russian markets. The country is in many ways less vulnerable to external shocks than it was four years ago, even though it has become ever more dependent on oil prices. Charles Robertson, global chief economist at Renaissance Capital, the Moscow-based investment bank, says: “In 2008, markets priced Russia as if it was going to offer a repeat of 1998,” referring to the 1990s default on domestic debt. “Now, the markets are pricing Russia like it’s going to be 2008 again.” The foreign debt of banks and companies is much lower than it was four years ago, making the economy less susceptible to a sudden halt to financing and the macroeconomic position also looks robust. Russia has foreign exchange reserves of $500bn, a current account surplus last year of more than 5 per cent of gross domestic product, and public debt below 10 per cent of GDP. Growth was a respectable 4.3 per cent in both 2010 and 2011, and the International Monetary Fund is forecasting 4 per cent growth this year and next. Russia can, of course, never be immune. Sberbank, the country’s biggest bank, warned last month that, if Greece withdrew from the euro in the final quarter of 2012 in an “unregulated” way, Russia’s GDP would contract 2.1 per cent next year. Renaissance Capital says an “orderly” Greek exit would prompt a modest slowdown in Russia’s growth to 2 per cent this year and 2.9 per cent next; a disorderly exit would cause a mild 2013 recession of 0.2 per cent. If Spain also left the euro, Renaissance forecast that Russian output would decline 2.7 per cent this year and 5 per cent in 2013. What is notable about all those forecasts is that they are less severe than Russia’s 2009 recession. But some analysts are more cautious. Russia’s Higher School of Economics warns that if a global slowdown reduced oil prices even to $80 a barrel, the government would quickly burn through its $60bn rainy-day reserve fund to meet its budget obligations. Oil dependency is seen as Russia’s biggest weakness. This year’s budget needs an oil price of more than $120 a barrel to balance, lifting the non-oil deficit, the shortfall excluding oil and gas revenues, to 12.5 per cent of GDP. It was below 5 per cent before 2008. Returning president Vladimir Putin, made some costly election promises which totalled about Rbs10tn ($309bn) by 2018, even excluding ambitious military spending increases, notes Sergei Aleksashenko, a former deputy central bank governor, now director of macroeconomic studies at the Higher School. Oil prices would need to grow by $10 to $15 a year, he adds, otherwise the “budget will not be affordable”, forcing Russia to increase borrowing or reduce spending. Economists have also warned that, with budgetary spending becoming a bigger contributor to growth, and that, in its turn, increasingly funded by oil and gas revenues, Russia is drawing too heavily on its energy wealth. That drives up prices and costs, crowds out private sector investment and makes manufacturing uncompetitive, all classic symptoms of the so-called Dutch disease. This hinders what should be its main policy aim: diversifying the economy away from reliance on extractive industries. Most observers agree the only way to do that is through structural reforms aimed at increasing competitiveness and stimulating the private sector, small businesses, and technology. Mr Putin has repeatedly said he understands this. But the market believes that, since his return as president, the signals he has given over his commitment to reforms have been distinctly mixed. However, Anders Aaslund, a Swedish economist who advised on Russia’s 1990s reforms and has often been a Putin critic, believes the recent signals have been more positive than investors give credit for. He expects Mr Putin to be hawkish in domestic politics and foreign policy, but to make real efforts on economic reforms. “This is where Putin thinks that he can deliver something, where he can give ground to the liberal groups,” says Mr Aaslund. He highlights an April speech by Mr Putin which set concrete targets – including improving Russia’s 120th position in the World Bank’s Ease of Doing Business index by 100 places by 2018. Mr Aaslund adds that the newly-appointed government, headed by prime minister Dmitry Medvedev, contains more liberal reformers, with greater room for manoeuvre, than is commonly supposed. But the Higher School’s Mr Aleksashenko remains sceptical, warning that Mr Putin tends to ignore the most fundamental problems. “In his articles and speeches, there was not one word about independent courts, about rule of law, about prevention of corruption,” he says. “Without these pillars, I don’t believe structural reform is possible.”

### A2 Diversified Now

#### Nope - Russian diversification efforts are all oil dependent

Kuboniwa 12 [Masaaki, Institute of Economic Research at Hitotsubashi University, ‘Comparative Economic Studies Issue 2012: Diagnosing the ‘Russian Disease’: Growth and Structure of the Russian Economy,’ page 121-148, ProQuest, JP]

We attempted to diagnose R-D through an empirical explanation for the unique Russian case, clarifying some of the unresolved issues reported elsewhere. Using a stepwise approach based on the single cointegrating equations and ECMs, we showed the difference between D-D and R-D. We demonstrated that the key symptom of R-D is the strong positive impact of oil prices or TG on overall GDP growth and manufacturing growth. Most of the important macroeconomic variables, including the real exchange rate, are exposed to oil price changes in Russia. In a sense, this suggests high potential for the Russian economy because continuous increases in oil prices induce higher GDP growth with higher TFP in Russia than in most of the other resource-rich and non-resource-rich countries. However, the fact that diversification efforts themselves are oil-dependent would bring about rather high instability in the economy.

#### Falling prices would make Russia vulnerable – still dependent

[Jason Bush](http://blogs.reuters.com/search/journalist.php?edition=uk&n=jason.bush&) 7/11 MOSCOW | Mon Jul 2, 2012 11:22am BST
<http://uk.reuters.com/article/2012/07/02/uk-russia-oil-idUKLNE86102820120702>

Falling oil prices could trigger a prolonged slump in Russia that would lay bare the growing fiscal risks, threatening President Vladimir Putin's election promise to increase wages and fanning public discontent.¶ The world's largest oil producer is well-placed in the short run to withstand sliding prices, thanks to sizeable cash reserves and a flexible rouble. And Putin, who returned to the Kremlin after March's election, is still widely popular.¶ But the oil price has fallen by over $30 dollars in the last three months, to close to $90 per barrel, and may fall further, narrowing his room for budgetary maneuver just as mass protests have underscored dissatisfaction with the government.¶ "This is not the best start for the new government," said Peter Westin, chief strategist Aton brokerage in Moscow.¶ "If the oil price is temporarily at these levels, or even lower, it's not a huge problem. The issue is whether it stays there."¶ Oil and gas taxes account for around half of revenues raised by the federal budget, which Putin, as prime minister, used to boost public sector pay and pensions as a way of overcoming the 2009 economic slump.¶ Putin, who has taken a more populist approach to dealing with his declining popularity, promised even more public sector pay rises as part of his election campaign.¶ While that would cushion the immediate blow of any slowdown, running down the fiscal reserves to maintain high social spending would only increase Russia's long-term vulnerability to yet another oil price shock.**¶** "In the short term they can sustain a very low oil price, but they need to address the structural problems in health, education and pensions," said Ivan Tchakarov, chief Russia economist at Renaissance Capital.¶ "This is not a sustainable fiscal policy, there's no question about it."

#### Totally dependent – 2013 budget proves

[Jason Bush](http://blogs.reuters.com/search/journalist.php?edition=uk&n=jason.bush&) 7/11 MOSCOW | Mon Jul 2, 2012 11:22am BST
<http://uk.reuters.com/article/2012/07/02/uk-russia-oil-idUKLNE86102820120702>

The last time oil prices fell so precipitously, in 2009, Russia's economy slumped by a dramatic 8 percent. Collapsing oil was also a catalyst for Russia's 1998 economic crisis that ended in devaluation and default.¶ Putin, in his annual statement on the budget on Thursday, acknowledged that Russia's reliance on energy prices was one of its biggest policy headaches.¶ "The Russian budgetary system is highly dependent on the situation on world commodity markets," he said. "This limits the opportunities for budget maneuver."¶ For now, Finance Minister Anton Siluanov has earmarked $6 billion that could be spent in 2012 from a budget rainy-day fund should a deteriorating global economy drag on growth in Russia.¶ "We hope we don't have to make use of these measures, because the steps being taken by the government and central bank are sufficient," Siluanov said.¶ He trimmed his 2013 budget deficit forecast to 1.5 percent of gross domestic product, assuming an average oil price of $97 per barrel. The fiscal plan will help keep the national debt, now around 10 percent of GDP, manageably low.

#### Wont diversify, Libya and high oil prices

Nekhorosheva 11 [Ksenia Nekhorosheva is a RIA novelist 3/14/11 <http://en.rian.ru/business/20110314/162994533.html>]

Efforts of Russia, one of the world's largest crude producers, to increase the share of its non-energy economy has been nipped in the bud by higher oil prices following the unrest in Libya, a significant oil supplier to the international market, analysts say. Unrest in Libya, a member of the Organization of Petroleum Exporting Countries (OPEC) and the world's 12th largest crude exporter, propelled oil prices to $130 per barrel, the highest in the last two and a half years. This might seem a boon for Russia, where energy revenue accounts for 65% of the budget revenue, but analysts say it deprives the economy of incentive to diversify with the bulk of investment coming into the highly profitable energy sector. "High oil prices push us back to ... teh pre-crisis development model in the medium-term prospect," Alexei Devyatov, an Uralsib bank analyst, said. "The economy starts focusing on the raw materials sector, while other industry growth will slow down." In 2010, as oil prices eased, Russia's processing industry expanded 11.8% compared with a 3.6% growth of the mining industry, statistics show. Windfall oil revenues flowing into the country put the central bank at the crossroads whether it should target inflation, like central banks in developed states, or curb the strength of the ruble. The central bank started changing its policy to target inflation, one of the Kremlin's everlasting woes, last fall, when it widened the floating corridor of its currency basket, consisting of dollars and euros, and cut the volume of its monthly interventions. But more petrodollars hunting for the ruble make the national currency more expensive which translates into less competitive Russian exports, primarily in oil. "Rising oil prices change central bank's policy. It is returning to its previous policy," Devyatov said. But easing the ruble means switching on the printing press and fueling inflation. "If oil prices are high, it is difficult for the central bank to fight inflation which is considerablly flat now. It is difficult to prevent inflation from growing when producers' costs are rising and capital, which correlates with the oil price, is coming in," Alexandra Evtifyeva from VTB Capital said.

#### Won’t diversify, Putin lies and promotes oil

Burke 12 [managing editor at www.eurasianet.org, managing editor at EurasiaNet Past: Editor at Open Society Institute, Reporter, Detroit Bureau at The Associated Press Education: Harvard University, Boston University, 3/3/12 <http://www.theatlantic.com/international/archive/2012/03/putins-economic-failure/253923/>]

Vladimir Putin, Russia's once-and-future president, has built his political reputation on a perceived ability to enforce order and revive the country's economy. But a review of official Russian government economic data, in particular import and export figures, suggests that Russia has moved backwards under Putin, at least in terms of the country's efforts to develop an advanced, high-tech economy. Russia's presidential election will be held March 4, and it appears a foregone conclusion that Putin will return to the presidency. Whether in the capacity of president or prime minister, Putin has been in charge of Russia's economy since mid-1999, and he seems a decent bet to keep running the country for the foreseeable future. During his tenure in power, Russia has experienced robust economic growth and benefited from a favorable balance of trade, enabling the Kremlin to amass cash reserves of just over $505 billion, according to Central Bank statistics. But trade-surplus figures provide only a partial picture of the Russian economy, creating an illusion of economic health. Russian growth is overly dependent on the export of raw materials, especially oil & gas, but also including minerals, precious metals and timber. During his first go-round as president, Putin spoke repeatedly of a need to transform Russia's economy. In a May 2006 speech to the Federation Council, for example, he said his administration was already taking "concrete steps to change the structure of our economy, and turn it into an economy of [technological] innovation." And on May 8, 2008, the day he stepped down from the presidency and returned to the post of prime minister, he announced the government's "number one priority" was economic diversification via the "development of innovative industries." If figures compiled by Russia's Federal Service for State Statistics (FSSS) are to be believed, Putin's quest to create a knowledge-based, high-tech economy has been a dismal failure. Import-export data for the past 12 years shows that Russia's role in the global economy remains that of raw materials supplier, and that the high price of oil & natural gas is all that stands in the way of Russia becoming a fiscal train wreck. When it comes to the state budget, the stability of Russia's finances is dependent on an increase in the cost of energy. The Kremlin thus stands to benefit economically from increased tension between the West and Iran. Prior to the global financial crisis, Russia could balance its books with an oil price of about $90 per barrel, former Russian Finance Minister Alexei Kudrin said last September. Now, according to the Finance Ministry, the Russian budget needs an oil price of $117 per barrel this year to remain in good shape. Trade data shows that more than a decade of Putinism has left the Russian economy less diversified today than when Putin first came to power. In some aspects, exports of Russian durable goods seem to have regressed from the point where they stood when Putin's presidential predecessor, Boris Yeltsin, resigned in on December 31, 1999.

### A2 Dutch Disease

#### Russia not affected by Dutch Disease- global growth has stopped

**Adomanis 12-**writer based in Washington DC who holds degrees in Russian studies from both Harvard and Oxford (Mark, “Is Russia Suffering from Dutch Disease?”, 6/22/12, [http://www.forbes.com/sites/markadomanis/2012/06/22/is-russia-suffering-from-dutch-disease/)//CN](http://www.forbes.com/sites/markadomanis/2012/06/22/is-russia-suffering-from-dutch-disease/%29//CN)

In the course of a generally excellent FT article, one that I would encourage everyone to read as it provides a very solid overview of where Russia’s economy sits in mid 2012, Neil Buckley goes off on a bit of a tangent. I want to highlight this not because I’m trying to beat up on Buckley, he does very good work, because he seems to confuse two very different problems potentially facing the Russian economy: Economists have also warned that, with budgetary spending becoming a bigger contributor to growth, and that, in its turn, increasingly funded by oil and gas revenues, Russia is drawing too heavily on its energy wealth. That drives up prices and costs, crowds out private sector investment and makes manufacturing uncompetitive, all classic symptoms of the so-called Dutch Disease. This hinders what should be its main policy aim: diversifying the economy away from reliance on extractive industries. I’m not an expert in natural resource economics, but my understanding of Dutch Disease is basically the same as the one offered here by The Economist: the malady involves commodity exports driving up the value of the currency, making other parts of the economy less competitive, leading to a current-account deficit and even greater dependence on commodities. Dutch Disease is basically about natural resources affecting a country’s position in the international economy: its currency becomes too strong which discourages domestic production and encourages imports. This is extremely dangerous for many reasons, but perhaps the most severe is that if the flow of natural resources ever comes to a sudden stop the value of the currency will crash. Normally a country would respond to a weakening of its currency by increasing exports, but in an economy ravaged by Dutch Disease there is little immediate ability to increase exports because the manufacturing sector has become so weak and withered and the country so dependent on imports. Balance will eventually be achieved, a cheaper currency will eventually spur a growth in manufacturing and exports and a decrease in imports, but this nightmare scenario explains why so many countries with significant oil production have “sequestered” most of their earnings either by paying down foreign debts or by creating various types of sovereign wealth funds. Russia, of course, essentially followed the textbook economic playbook from 1999-2005 by using almost all of the increase in oil earnings to pay down its sovereign debt ahead of schedule and to create the “reserve fund” and the “national welfare fund.” Crowding Out, on the other hand, is about domestic government spending leading to an increase in interest rates and a decrease in private investment. There are various iterations of this argument, and while it almost always focuses on deficit-financed government spending there are some people who make much more radical arguments about the distortions caused by any government spending whatsoever. Unlike Dutch Disease, Crowding Out is basically a domestic phenomenon: it can occur in a country regardless of its international context. If a government has gone on a debt-financed investment binge, it’s probably going to experience crowding out whether its currency is cheap or expensive relative to those of other countries. Since the sine qua non of Dutch disease is an overvalued currency, we can see if this is actually the case with the Russian ruble. Here is how the ruble has fared compared to the dollar and the Euro since April 2004 (when the Google finance charts begin): **[Chart Ommited]** The ruble strengthened against the dollar considerably from 2005-2008, but since then it has actually lost a significant bit of ground. And the ruble never strengthened noticeably against the Euro, it’s been consistently weaker for almost all of the past 8 years. Indeed what’s remarkable is that, until the recent turmoil in global markets took a hefty toll on the ruble and sent it tumbling, the ruble was within earshot of where it was all the way back in 2004. Indeed rather than a dramatically overvalued ruble, which is what would happen if Russia were suffering from Dutch Disease, the most dramatic threat facing Russia in 2012 is that, as global growth retreats and prices for natural resources decline, the value of the ruble will stumble even further and require costly Central Bank interventions to prevent a panicky devaluation. Crowding out is a serious concern, particularly because the Russian state continues to play far too large a role in the country’s economy and also because Putin’s proposals from his election campaign would suggest a huge increase in state spending, but even there the story is a complicated one. Russian inflation is at or near its post-Soviet low, and interest rates are also near post-Soviet lows. **Part of the reason that Russia is not experiencing Dutch Disease (which is something you would normally expect in a country that has earned such an enormous pile of money from selling oil and natural gas) is that the world economy has been in turmoil for most of the past 4 years: there has been a “flight” to quality in “safe” assets and currencies which has surely worked to weaken the ruble and depress its value.** The “new normal” is actually a pretty bizarre state of affairs, and is characterized by any number of things, such as negative real interest rates on German Bunds and US treasuries, that ten years ago would have seemed impossible. Russia’s economy faces an awful lot of risks, and its over-dependence on natural resources is extremely dangerous, particularly at a time that global growth is slamming to a halt. Buckley is right that Russia needs to diversify, and that its government will find this process to be an extremely difficult and complicated one. But, at the present time, one of the very few economic risks that Russia doesn’t face is Dutch Disease: its currency isn’t overvalued and, if anything, is actually trending lower against the main reserve currencies.

#### Dutch Disease only happens if there is one sector drains from others, oil does not.

Dashevsky 11- CFA @ Baruch College NYU, Senior economic analyst @ Aton, Managing Director of Dashevsky & Partners (Steven, “The Russian economy and its oil”, 5-24-11, http://rt.com/business/news/russia-economy-oil-rpice/)//CN

There are elements of Dutch disease, so I think not all the symptoms are here because the oil industry is not, Dutch disease happens when one industry, in this case oil and gas industry, really begins to crowd out investment and jobs and becomes the centre of everything, so the rest of the economy kind of dies.In the Russian case, it’s a **little bit** different because a lot of the money that flows into the country, via the oil and gas sector, subsequently flows further into the economy. So the impact from the oil and gas sector for example, on the currency is not what it used to be.So, yeah, if the oil prices are high it gets stronger, but it’s not dramatically stronger, and I think the economy is becoming, in relative terms, it is getting better if oil prices are high, instead of getting worse. Dutch disease really happens if there is one sector that is doing well and it drains resources from all the other sectors.In Russia’s case when oil prices are high, all sectors are enjoying it because it trickles down to the entire economy.So I think there are certain elements of it, but I don’t think Russia has Dutch disease, and whatever people say, fortunately if oil prices are high it is good for Russia, and it is good for Russia as a whole, not just for Russian oil companies.”

#### Russia is different – it can avoid the resource curse

Gilman 8-, Senior representative @ IMF Russia, professor at the Higher School of Economics @ Moscow (Martin. “Immunity From the Oil Curse.” The Moscow Times. Issue 3922. June 11, 2008. http://www.themoscowtimes.com/article/600/42/368237.htm)//CN

 …For Russia, the stakes are different. As the world’s second-largest oil producer, it is almost the mirror image of many Western countries. Higher oil prices are fueling a boom in domestic aggregate demand, with real gross domestic product expanding by more than 8 percent for the year through May. Government revenues are rising so much that, even with the supplementary budget, the fiscal surplus is expected to decline only slightly to 5 percent in 2008. Foreign-exchange reserves have hit almost $550 billion as the country attracts foreign investment on a net basis on top of the current account surplus. This oil boom comes at a price, however. The continuing rise in private spending, along with the acceleration in government spending since the second half of last year and a loose monetary policy, have fueled a doubling in the rate of inflation in just a little over a year. Hopefully, recent steps to tighten monetary conditions and the deceleration of fiscal expansion should help to prevent Russia from following Ukraine’s path toward inflation rates exceeding 30 percent. For Russia, the stakes are especially high as critical decisions about future oil output are overdue. The country already produced 0.8 percent less oil in May than in the same month last year, bringing the country closer to the first annual decline in oil output in a decade. Total exports also fell by 4.6 percent less than in May last year. The government plans to offer a 100 billion ruble ($4.2 billion) package of tax breaks and incentives to stimulate production growth, including a cut in the mineral extraction tax, incentives for production of high-quality and environmentally cleaner fuels, tax holidays for offshore exploration and changes to the excise duties on high-quality oil products. But with higher costs of development, it is unclear if the proposals, which will go into force in 2009, will go far enough to boost production Russia’s leaders are **well** aware of the poor track record of oil and other commodity producers in squandering their natural wealth **inheritance** on wasteful spending, white-elephant projects and corruption**. Good examples of this phenomenon include Gabon, Iraq, Libya, Nigeria, Venezuela and Zambia. These countries have all gambled their future on the hope that high commodity prices would continue for the foreseeable future. The problem is that they rarely do.**Russia has done well so far in avoiding this infamous “resource curse.**”** The budget surpluses, the reserve fund, a three-year rolling budget for planning purposes**, the analytical use of a non-oil budget and its high external reserves** underscore its commitment to maintaining a prudent stance**. Moreover,** with a booming economy, medium-term prospects are favorable**. Relative to most other countries,** Russia is in an enviable position.**.**

### A2 Collapse Inevitable

#### High oil prices now give time for Russia to break its oil dependence

Grinkevich 12 [conomic commentator Vlad Grinkevich 1/27/12 http://en.rian.ru/analysis/20120127/170994608.html]

IMF experts believe that high oil prices will allow the Russian government to take measures to strengthen, protect and reform the economy. Russia is benefiting from the rising tensions in the Middle East, which are driving up the price of a barrel of oil, but experts believe this geopolitical factor will soon subside. Moreover, expensive oil is slowing down Russia’s economic growth, and without economic reforms even expensive oil cannot guarantee economic stability. Iran to the rescue Speaking at a news conference at RIA Novosti on Thursday, Odd Per Brekk, senior resident representative of the IMF office in Russia, said that high oil prices have opened a “window of opportunity” for Russia to take measures to strengthen and protect its economy. To take full advantage of this opportunity, the Russian government must undertake a complete economic transformation – keeping inflation at 3%-5%, cutting budget expenses, improving the financial sector, creating an attractive investment climate and eventually reducing the dependence of its economy on the export of raw materials. In other words, Moscow must pursue comprehensive economic modernization, funded by its oil and gas revenues. © RIA Novosti. The situation around the Strait of Hormuz Global circumstances will aid Russia along in this process. IMF experts predict that suspension of oil exports from Iran to OECD countries caused by U.S. and EU sanctions will increase oil prices by 20%-30%, whereas closing the Strait of Hormuz, as Iran has threatened to do, would cause even bigger hikes in oil prices. Russian experts are skeptical about the prospects of this kind of commodity-based modernization.

#### High oil prices solves the problems in the Russian economy

Kudenko 10-, columnist @ RiaNovosti (Aleksey, “High oil prices to solve Russia’s financial problems – Putin”, 6-2-10, http://en.rian.ru/russia/20100602/159273742.html)//CN

Extra budget revenues due to higher oil prices will allow Russia to effectively deal with its main financial issues, Prime Minister Vladimir Putin said on Wednesday. Putin said that whereas the 2010 budget was based on a projected oil price of $58 per barrel, the average price so far this year had in fact exceeded $70. "We can make greater headway in solving our main financial problems. Above all, in reducing the budget deficit," he told a cabinet meeting, ammmdding that in 2009 the deficit constituted 5.9% of GDP. He said the country's Reserve Fund could be used "more economically." Putin said economic growth was also higher than forecast several months ago. According to the Ministry of Economics and Trade it currently stands at 3.5-4.5% y-o-y, or possibly even higher. Finance Minister Alexei Kudrin said in mid-May the 2010 deficit would be 5.2-5.4% and that the budget would be balanced with an average oil price of $95 per barrel. The budget deficit in 2011 is expected at 4% of GDP with an oil price of $70 per barrel and 8% of GDP with a price of $50. Kudrin also said that the Reserve Fund would most likely last through 2011 and not be completely used up in 2010, as was previously expected. Russia, which continues to rely on raw material exports as its principal source of budget revenue, was badly affected by the 2008 global economic crisis, but a quicker-than-expected recovery of oil prices has eased pressure on the federal budget.

#### High oil price allows for stable growth

RIA 10-Russian and international news from the state news agency (Ria Novoski, “Russian economy to show stable growth with oil price above $60”, 10-10-10 http://en.rian.ru/business/20101010/160898404.html)//CN

The Russian economy will demonstrate stable growth next year if global oil prices stay above $60 per barrel, Finance Minister Alexei Kudrin said on Sunday. According to the Russian government's forecast, the price of Russia's Urals oil blend is expected to stay at the level of $75 per barrel in 2010 and 2011 and rise to $78 per barrel in 2012 and to $79 per barrel in 2013. The government's projections for Russia's federal budget in the next three years are based on the average annual price of $70 per barrel. According to data of the Russian Finance Ministry, the average price of Urals oil blend was $77.4 per barrel in September 2010 compared with $67.15 per barrel in September 2009.

Oil bursts life in the economy – empirics

Ryan 2k- Freelance journalist BBC News (Orla, , “Crucial times for Russia's economy,” 3-27-2000, http://news.bbc.co.uk/2/hi/in\_depth/europe/2000/russian\_elections/features/670170.stm)//CN

Late last year Mr Putin boasted that his country's ailing economy is now "bursting with new life". Many Russians still live in poverty "For the first time since the start of reforms, we have sustained growth over a span of 14 months," Mr Putin told parliament in a speech on the state of Russia's economy late last year. "This is the result of the sharp devaluation of the rouble ... and the high oil prices that, thank God, continue to rise." Since then, oil has continued to rise in value, reaching $34 a barrel in New York in March, a tripling of the price in one year. Oil is crucial to the Russian economy. It is the biggest export, and tax revenues from oil and gas companies are vital in curbing the budget deficit.

#### Russia Is currently stuck to Oil prices, but reform is on the way

**Forbes 2012** Kenneth Rapoza, Contributor to Forbes, spent the last five years covering all aspects of the country for Dow Jones, Wall Street Journal and Barron's.4/03/2012 <http://www.forbes.com/sites/kenrapoza/2012/04/03/oil-a-problem-for-russian-economy-official-says/>

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.

#### High oil key to ensure reform happens

**Zakaria 2012** Fareed reporter and news anchor for CNN <http://globalpublicsquare.blogs.cnn.com/2012/05/29/would-moving-capital-kick-start-russian-economic-reform/>“Would moving capital kick-start Russian economic reform?”5/29/2012

A bold proposal recently caught my eye: One of Moscow's top academics says Russia should build a new capital city. This city would be far, far away from Moscow, 4,000 miles to be exact — in Vladivostok. Why? Well, the person who proposed the idea, Sergei Karaganov of Moscow's Higher School of Economics, [wrote in a state-run newspaper](http://www.rg.ru/2012/05/16/stolica-site.html) that a capital in the far east would make Russia part of what he calls "the rising world" — closer to dynamic Asian economies and further away from an aging Europe. The idea of moving a capital is not without precedent. British India moved its capital from the coastal city of Calcutta to the more centrally located Delhi in 1911, and then created the city of New Delhi. In the 1920s, Turkish nationalists moved their capital from Istanbul to Ankara, kick-starting rapid growth in central Turkey. More recently, Brazil moved its capital from Rio de Janeiro to Brasilia, in the center of the country; and Kazakhstan moved its seat of government from Almaty to Astana to be closer to Russia. It's unlikely President Vladimir Putin will want to follow suit. But he would do well to think about the underlying thrust behind the argument: Moscow needs urgent reform. Russia is not really a booming emerging market economy. It is an oil-rich kleptocracy where mostly everything else in the country — including the once-vaunted military — is in a shambles. Putin often cites figures to show he has presided over a boom. The average Russian's income has risen more than seven-fold in the last decade, from 2,000 to 14,000 dollars a year. Yet that statistic tells an incomplete story. Russia's growth has been uneven. Moscow has 78 billionaires — more than any other city in the world. Those billionaires, along with others in the rest of the country, account for 20% of Russia's GDP. Far higher than any country. That doesn't leave much of Russia's economy for businesses and the other 141 million people in the country. The second problem is that Moscow's fate has for years been linked to crude oil prices. Data shows how Russian stocks have risen and fallen in step with oil prices. According to Reuters, Russia now needs crude to trade at $117 a barrel simply to balance its budget. That number used to be $50 as recently as 2008, and $27 at the start of Putin's first presidency. Talk about a bloated state. In part, Moscow's escalating expenses are a result of Putin's largesse, a policy designed to keep his electorate happy and keep him in power. Rising crude prices have allowed Putin to maintain that system of bribery. But with global growth now slowing, he can no longer count on the same set of conditions for the rest of his presidency. Instead, he needs to reform the economy. Private companies need the freedom and confidence to actually develop. Russia has only one main bank — its people need a financial system they can trust. Russia ranks 143rd in the world on Transparency International's corruption index. To his credit, Putin acknowledges these problems. Shortly after his re-election, he spoke of improving Russia's rank in the World Bank's "Ease of Doing Business" list, from 120th in the world to a place in the top 20. He also targeted raising investment from 20% of GDP to 27%. But if those targets sound somewhat familiar, it's because he's set similar ones before — during his first presidency. And didn’t meet them. This time, he not only has the economy to fix: he's also faced with an opposition movement with growing courage. The Kremlin this week welcomed a new cabinet, but it's mostly full of mostly the same old faces. If Putin keeps the same old policies, his problems may only just be starting.

### Diversification Bad

#### Oil is one of Russia’s most important resources- a diversification away from it would make no economic sense

#### Gaddy 11 [Clifford Gaddy is an economist specializing in Russia who writes books on the political economy of Russian oil and gas and on the country’s long-term growth prospects. “Will the Russian economy rid itself of its dependence on oil?” http://en.rian.ru/valdai\_op/20110616/164645377.html]

To ask whether the Russian economy will rid itself of its “dependence on oil” is to ask whether ideology will trump economics. Many people in Russia—including President Medvedev—seem to believe Russia should de-emphasize the role of oil, gas, and other commodities because they are “primitive.” Relying on them, they argue, is “degrading.” From the economic point of view, this makes no sense. Oil is Russia’s comparative advantage. It is the most competitive part of the economy. Oil and gas are something everyone wants, and Russia has more of them than anyone else. It is true that the Russian economy is backward, and that oil plays a role in that backwardness. But oil is not the root cause. The causes of Russia’s backwardness lie in its inherited production structure. The physical structure of the real economy (that is, the industries, plants, their location, work forces, equipment, products, and the production chains in which they participate) is predominantly the same as in the Soviet era. The problem is that it is precisely the oil wealth (the so-called oil rent) that is used to support and perpetuate the inefficient structure. For the sake of social and political stability, a large share of Russia’s oil and gas rents is distributed to the production enterprises that employ the inherited physical and human capital. The production and supply chains in that part of the economy are in effect “rent distribution chains.” A serious attempt to convert Russia’s economy into something resembling a modern Western economy would require dismantling this rent distribution system. This would be both highly destabilizing, and costly in terms of current welfare. Current efforts for “diversification” do not challenge the rent distribution system. On the contrary, the kinds of investment envisioned in those efforts will preserve and reinforce the rent distribution chains, and hence make Russia more dependent on oil rents. Even under optimal conditions for investment, any dream of creating a “non-oil” Russia that could perform as well as today’s commodity-based economy is unrealistic. The proportion of GDP that would have to be invested in non-oil sectors is impossibly high. Granted, some new firms, and even entire sectors, may grow on the outside of the oil and gas sectors and the rent distribution chains they support. But the development of the new sectors will be difficult, slow, and costly. Even if successful, the net value they generate will be too small relative to oil and gas to change the overall profile of the economy.

#### Diversification bad- the cost of diverting money into new sectors is too high and the results aren’t worth it

#### Gaddy and Ickes 10 [Clifford Gaddy is an economist specializing in Russia who writes books on the political economy of Russian oil and gas and on the country’s long-term growth prospects. Ickes is Acting Head of the Department of Economics at PSU, also Professor of Economics and Director of the Center for Research on International Financial and Energy Security at the Pennsylvania State University. “Russia after the global financial crisis.” http://www.brookings.edu/~/media/research/files/articles/2010/5/russia%20financial%20crisis%20gaddy/05\_russia\_financial\_crisis\_gaddy.pdf]

One of the alleged policy failures of the Russian leadership is the failure to “diversify” the economy so as to reduce its dependence on oil and gas. For many, it appears to be axiomatic that Russia’s oil and gas dependence is bad. When the economy suffered so badly in the global financial crisis, calls for diversification intensified. If Russia had been less dependent on oil and gas, it was argued, it would have experienced less of a shock from the crisis. 13 This is not clear. Eastern European economies that are not oil exporters also suffered dramatically from the crisis. Ukraine (which one can think of as Russia without oil and gas) and Hungary were compelled to turn to the IMF for bailouts—a fate Russia avoided thanks to the large dollar reserves it was able to build up precisely because it was a large petroleum exporter. Disregarding for a moment the experience of other economies, let us suppose that Russia had undertaken a diversification program in 2000. What is the likelihood that this would have resulted in success by the summer of 2008? Over that period, 2000–2008, the increase in annual export earnings from commodities was more than 20 times greater than the increased yearly income from manufacturing exports. 14 The magnitude of investment that would have been required to even come close to balancing those shares is mind-boggling. How could such a program of diversification have been financed if Russia had not focused on exporting oil? Further, where would investment have been targeted in the hypothetical ideal diversification effort? One must think hard about the meaning of diversification. To have helped, the performance of the “new” sectors would had to have had fluctuations uncorrelated with oil and gas. Sectors that are positively correlated would not have significantly dampened fluctuations in income flows. It is not clear where investment could have been channeled to achieve the desired effect. Consider that every single non-oil sectoral index in the benchmark Russian stock market, the RTS, fell more than the oil and gas sector index after the market’s mid-2008 peak. 15 The telecom and consumer goods indexes fell by around 80 percent, and the manufacturing and financial sectors by over 90 percent. Had Russia devoted more investment funds to expanding its retail sector or to manufacturing capacity, it is likely that the shock to GDP from the world crisis would have been even larger.

## Impacts

### Loose Nukes

#### Russian Economic decline causes Loose Nukes

**PBS 2001** “Frontline: Loose Nukes” 1-02-2001 http://www.pbs.org/wgbh/pages/frontline/shows/nukes/stuff/faqs.html

Russia's economic collapse has also hindered action by the Russian government. Budget shortfalls have meant that many factory workers have their wages delayed for months. The nuclear complex has not been immune to such difficulties. In such an economic environment, the Russians don't have the money to fund the necessary safeguard improvements at their nuclear facilities by themselves. But working in partnership with the U.S., the initiatives to increase security in the Russian nuclear complex are steadily progressing. It is clear to observers that this work must continue and be carried out as quickly as possible.

#### Loose nukes cause Extinction

**Finlay 5** – Senior Associate Director at Stimson's Managing Across Boundaries program (Brian, September, “The Race To Secure Russia’s Loose Nukes: Progress Since 9/11”, http://www.stimson.org/experts/brian-finlay/)

Four years after a bipartisan Task Force recommended an acceleration of programs to secure Russia's vulnerable nuclear weapons and materials by 2009-2011, the United States has failed to dramatically hasten efforts. At the current rate, the United States may not reach that goal until 2020- 2030. Today, enough Russian bomb-grade material for tens of thousands of nuclear weapons remains potentially vulnerable to theft. With al Qaeda and other terrorist organizations having stated their intent to acquire a nuclear device, this potentially catastrophic synthesis of factors has led to realistic fears of a nuclear 9/11.

### US-Russia Relations

#### Oil Key to US and Russia relations and cooperation with US allies

**Jaffe 3** – Amy Wallace Wilson fellow for energy studies (Myers, AUGUST, “The Strategic Geopolitical Implications of Russian Energy Supply”, http://www.bakerinstitute.org/publications/the-strategic-and-geopolitical-implications-of-russian-energy-supply)

The development of Russian/American joint strategies for cooperation in the energy sector has been highlighted as an important aspect of the U.S.-Russian relationship. While United States and Russian strategic interests do not overlap in every area of international discourse, common interest does exist in the energy sector and on other matters of international economy and security. Both the U.S. and Russia will benefit from rising Russian exports of oil and natural gas to global markets. Higher Russian oil exports help create a more diversified, and therefore more stable, international oil market, aiding the U.S. economy and American energy security. In fact, as Russia expands its export infrastructure, an increasing volume of Russian oil will probably make its way to U.S. shores, reducing the amount of oil the U.S. needs to buy from the Middle East. The U.S. market could be an important one for oil prolific Russia. The consistent growth in U.S. oil imports is an overwhelming factor in global oil markets. U.S. net imports rose from 6.79 million barrels a day in 1991 to 10.2 million barrels a day in 2000. Global oil trade, that is the amount of oil that is exported from one country to another, rose from 33.3 million barrels a day to 42.6 million b/d over that same period. This means that America’s rising oil imports alone have represented over one third of the increase in oil traded worldwide over the past ten years. In terms of the Organization of Petroleum Exporting Countries (OPEC), the U.S. import market was even more significant –over 50% of OPEC’s output gains between the years 1991 to 2000 wound up in the United States. Current U.S. oil demand is about 20 million barrels day, of which close to 40% is produced domestically. Russia will also be supplying more oil and gas to key U.S. allies like Japan, South Korea and the European Union. Higher Russian oil and gas exports also strengthen the Russian economy, reducing dependence on U.S. financial aid and helping make its democracy more sustainable. It can even lower the costs to Russia of cooperating on nuclear proliferation issues by shrinking the importance of military exports. The gains for Russia to higher exports are even more obvious. Russia is the world’s second largest crude oil producer and petroleum exporter. Oil and gas account for 40-50% of total Russian exports; 30% of fiscal revenues; and 13% of GDP. Rising oil exports helped Russia register a $5 billion budget surplus in 2002 and strong GDP growth, between 4-10% in recent years. Oil diplomacy has helped Russia enhance its international stature and improve its relationships with key consumer countries such as the U.S., Japan, China and the EU

### US Econ

#### US relies on Russian oil market

**Pirog 2007** Specialist in Energy Economics and Policy Resources (Robert, “Russian Oil and Gas Challenges”, http://www.fas.org/sgp/crs/row/RL33212.pdf)

Given that the United States, as well as Russia, is a major energy producer and user, Russian energy trends and policies affect U.S. energy markets and economic welfare in general. An increase in Russia’s energy production and its ability to export that energy could ease the supply situation in energy markets in the Atlantic and Pacific Basins. On the other hand, the Russian government’s moves to take control of the country’s energy supplies may reduce the amount of oil available. Possibly, U.S. suppliers of oil and gas field equipment and services could increase sales and investment in Russia. However, while the investment climate in Russia had been considered to be improving, it arguably is now worsening, as investors complain that it is inhospitable with respect to factors such as poor property rights protection, burdensome tax laws, inefficient government bureaucracy, and a tendency to limit foreign investor participation. This report, which will be updated as events warrant, was originally written by Bernard A. Gelb, CRS Specialist in Industry Economics, retired.

#### Russian collapse causes US collapse- energy sector ties

**Cooper 2009** – William H “Russia’s Economic Performance and Policies and Their Implications for the United States”, http://www.fas.org/sgp/crs/row/RL34512.pdf

Specialist in International Trade and Finance

Russia’s economic prospects have direct and indirect implications for the United States. One way to measure the direct implications is by examining the status of U.S.-Russian economic ties. U.S.-Russian trade and investment flows have increased in the post-Cold War period reflecting the changed U.S.-Russian relationship. Many experts have suggested that the relationship could expand even further. U.S. imports from Russia have increased substantially, rising from $0.5 billion in 1992 to a peak of $26.8 billion in 2008. The large increase in U.S. imports reflects not so much an increase in the volume of trade but the rise in world prices of raw materials, particularly oil, that comprise the bulk of those imports (64% in 2008). U.S. exports have increased from $2.1 billion in 1992 peaking at $9.3 billion in 2008. Major U.S. exports to Russia consist of machinery, vehicles, and meat (mostly chicken). Despite the increase in bilateral trade, the United States and Russia still account for small shares of each others’ trade. In 2008, Russia accounted for about 0.7% of U.S. exports and 1.3% of U.S. imports. It was the 17 th largest source of imports and 28th largest export market for the United States. The United States accounted for 3.4% of Russian exports and 5.4% of Russian imports. It was the fifth largest source of imports and 10th largest export market for Russia. 80 According to Russian government data, by the end of 2008, the United States accounted for 3.3% of total accumulated foreign direct and portfolio investments in Russia and was the eighth largest source of foreign investment. However, the first three countries were Cyprus (21.5%), the Netherlands (17.5%), and Luxembourg (13.0%), suggesting that at least 50% of the investments night have been repatriated Russian funds. Russia and the United States have never been major economic partners, and it unlikely that the significance of bilateral trade will increase much in the near term. However, in some areas, such as agriculture, Russia has become an important market for U.S. exports. Russia is the largest foreign market for U.S. poultry. Furthermore, U.S. exports to Russia of energy exploration equipment and technology, as well as industrial and agricultural equipment, have increased as the dollar has declined in value. Russian demand for these products will likely grow as old equipment and technology need to be replaced and modernized. Russia’s significance as a supplier of U.S. imports will also likely remain small given the lack of international competitiveness of Russian production outside of oil, gas, and other natural resources. U.S.-Russian investment relations could grow tighter if Russia’s business climate improves; however, U.S. business concerns about the Russian government’s seemingly capricious intervention in energy and other sectors could dampen the enthusiasm of all but adventuresome investors. The greater importance of Russia’s economic policies and prospects to the United States lie in their indirect effect on the overall economic and political environment in which the United States and Russia operate. From this perspective, Russia’s continuing economic stability and growth can be considered positive for the United States. Because financial markets are interrelated, chaos in even some of the smaller economies can cause uncertainty throughout the rest of the world. Such was the case during Russia’s financial meltdown in 1998 and more recently with the 2008-2009 crisis. Promotion of economic stability in Russia has been a basis for U.S. support for Russia’s membership in international economic organizations, including the IMF, the World Bank, and the WTO. As a major oil producer and exporter, Russia influences world oil prices that affect U.S. consumers. The impact of Russian economic policies and prospects also plays a role in U.S. national security interests. For example, Russia is a major supplier of natural gas to many U.S. European allies. In 2006, Russia accounted for 20% of France’s, 25% of Italy’s, and 36% of Germany’s consumption of natural gas, making these allies possibly vulnerable to political pressure. 82 On several occasions, most recently on January 1, 2009, Russia has temporarily shut-off gas supplies to Ukraine over a price dispute, and in so doing cut supplies to Europe. Although supplies were resumed two weeks later, the disruptions have affected European views of Russia as a reliable supplier of gas. 83 Russia is also a primary supplier of natural gas to other former Soviet republics, providing it with potential political leverage. The United States has been promoting the construction of pipelines that by-pass Russia, thus decreasing Moscow’s monopoly control of Caspian and Central Asian energy flows.

# Venezuela – NEG

## Internal Links

### Oil K2 Econ

#### Oil industry is priority of people and government controlled economy of Venezuela.

Norden 10 (Deborah, Professor and Chair, Department of Political Science at Whittier College, “Sowing Conflict in Venezuela: Political Violence and Economic Policy”, 7/25/10, <http://pbrc.soka.edu/files/documents/working-papers/norden.pdf>) ALT

The major thrust of Chávez’ economic policies was thus to expand government control over the economy, both in in order to shift greater resources toward the poor. Given its overwhelming significance in the Venezuelan economy, the new government first focused on the oil industry. The government also sought to provide a range of social benefits to the poor, albeit mostly with short-term, populist distributive programs, while moving gradually towards more consequential and divisive policies, such as land reform and nationalization of enterprises. Oil policy has been among the policies provoking the most backlash, including the April 2002 coup and the general strike of 2002-2003, during which time PDVSA management led almost a total shut-down of the oil industry (Webber 2010: 26-7) 7 . Chávez sought to reclaim control over the oil industry, redirecting oil proceeds toward his political project. The 2001 Hydrocarbons Law was an important step towards this control, establishing ―majority government ownership of all mixed companies in charge of primary oil operations‖ to reverse some of the process of economic liberalization (Ellner 2008: 113). The government also reined in PDVSA’s famous autonomy, expanding oversight by the Ministry of Mines and ultimately firing several of PDVSA’s top executives. Notably, the ensuing protests by PDVSA personnel generated little sympathy among the people, who had come to see the organization as more of a symbol of elite privilege than of modernization (Tinker-Salas 2009: 233). Under Chávez’ authority, the company came to function very differently than the previous, highly professional model, now becoming directly involved in many of the government’s social programs.

#### Venezuela needs high oil prices- provides 95% of export income.

Shannon 11 (Kerry, “Mideast Crisis and Higher Oil Prices Could Pour Profit into Venezuela's Economy”, 3/11/11, Money Morning Investment News, <http://moneymorning.com/2011/03/11/mideast-crisis-and-higher-oil-prices-could-pour-profit-into-venezuelas-economy/>) ALT

Oil provides 95% of Venezuela's export income, making the country's economy extremely reliant on oil prices. The oil industry is dominated by state-run oil company Petróleos de Venezuela S.A. (PDVSA). "Latin American economies continue to be sensitive to energy prices," said Money Morning Contributing Writer and energy expert Dr. Kent Moors. "While Venezuela in particular will reflect the OPEC approach, since it is a member, its production moving forward is governed by heavy oil from the Orinoco. This requires a greater emphasis on technology not controlled by Caracas and will increase the overall cost of the crude produced. Now at prices above $100 a barrel, the increased costs can certainly be absorbed (the same can be said for production from Canadian oil sands)." The Orinoco Belt is a section in the southern strip of the Orinoco River Basin in central Venezuela. It boasts a heavy crude oil supply and has been estimated to eventually produce 2.1 million barrels of oil a day. Venezuela last year awarded stakes to private companies to develop the resources.

#### Oil is key to the Venezuelan economy- a collapse in oil prices collapses Venezuela’s economy

#### Index mundi 11 [Index Mundi contains detailed country statistics, charts, and maps compiled from multiple sources. “Venezuela Economy Profile 2012” http://www.indexmundi.com/venezuela/economy\_profile.html]

Venezuela remains highly dependent on oil revenues, which account for roughly 95% of export earnings, about 55% of the federal budget revenues, and around 30% of GDP. A nationwide strike between December 2002 and February 2003 had far-reaching economic consequences - real GDP declined by around 9% in 2002 and 8% in 2003 - but economic output recovered strongly through 2008. Fueled by high oil prices, record government spending helped to boost GDP by about 10% in 2006, 8% in 2007, and nearly 5% in 2008, before a sharp drop in oil prices caused a contraction in 2009-10. This spending, combined with recent minimum wage hikes and improved access to domestic credit, created a consumption boom which came at the cost of higher inflation - roughly 32% in 2008, and slowing only slightly to 30% in 2010, despite the lengthy downturn.

#### Venezuela needs $100 oil to balance their budget

#### Vyas 6/15/12 [Kejal Vyas is a contributing writer for Wall Street Journal. “Venezuela Oil Basket Drops To Lowest Price In 16 Months” http://online.wsj.com/article/BT-CO-20120615-711648.html]

CARACAS (Dow Jones)--The price of Venezuela's basket of crude oil and refined products continued falling in the week ending Friday, losing $1.99 to settle at $92.06 per barrel, its lowest level in nearly 16 months. In a statement, the Energy Ministry said the price drop, which keeps the South American country's principal export below the key $100-a-barrel mark for the third consecutive week, is due to excess supply in the market as well as worries about global economic growth. Declines in crude-oil prices came as the Organization of Petroleum Exporting Countries Thursday decided to keep unchanged the group's production ceiling of 30 million barrels a day. Venezuelan Oil Minister Rafael Ramirez was among the loudest voices calling for strict compliance to the production limit in a bid to prevent prices from slipping further. Ramirez has frequently accused some Gulf countries of flooding the market to cater to major consumer nations. Venezuela has often said that $100 per barrel is fair price for the commodity that makes up 95% of its exports. High oil prices are crucial for President Hugo Chavez as he ramps up government spending in preparation for his re-election big in October. But with crude-oil prices falling and the government's fiscal deficit on the rise, Venezuela is seen as having to cut back on expenditures in 2013, while also will likely to devalue the bolivar currency's fixed rate against the dollar. In a note to clients sent out Wednesday, Bank of America Merrill Lynch forecast that the combination of events would likely "produce a deep GDP contraction" next year.

#### Venezuela needs 100/barrel to stabilize

Silene Ramirez Mon Jul 9, 2012 5:51pm EDT <http://www.reuters.com/article/2012/07/09/us-venezuela-oil-idUSBRE8681CC20120709>

Venezuela's President Hugo Chavez said on Monday that the global price of oil should stabilize at around $100 per barrel.**¶** "The price of oil is going to stabilize around $100 per barrel. Everything seems to indicate that," Chavez told a news conference. [Venezuela](http://www.reuters.com/places/venezuela) is a member of OPEC.¶ International reserves were dropping, Chavez said, except in a few countries like Venezuela, [Iran](http://www.reuters.com/places/iran) and Saudi Arabia. "And the needs are going to keep growing," he said.¶ Chavez, whose country is traditionally hawkish on prices and relies on oil for about 95 percent of its exports, gave no further details in his brief comments on the global outlook.

#### High Oil Prices Boost Venezuela's Economy

[Girish Gupta](http://www.minyanville.com/gazette/bios.htm?bio=421) May 20, 2011 8:20 am <http://www.minyanville.com/businessmarkets/articles/venezuela-ecoomy-hugo-chavez-imf-oil/5/20/2011/id/34668>

The Venezuelan economy has [grown](http://www.businessweek.com/ap/financialnews/D9N9CF980.htm) 4.5% in the first quarter, compared to the same period last year, following two years of recession. This was significantly higher than the expected figure of 1.7%. The IMF [predicted](http://venezuelanalysis.com/news/6197) 1.4% annual growth for the next five years. The positive news is thought to be the result of a simple balancing of statistics following two years of recession, with the first quarter of last year registering a 4.8% decline thanks in part to an electricity crisis. This, coupled with a 10.4% rise in expenditure, has helped private consumption to recover, according to a briefing note sent out by Barclays Capital. According to central bank president Nelson Merentes, the public sector grew 3.3% while the private sector grew 4.6%. Imports rose 22% during the period. Despite the 1.8% decline in oil production, Venezuela’s primary money-spinner, revenues from oil exports increased 25.7%, or $4 billion, thanks to high international prices. Alejandro Grisanti of Barclays Capital believes that it is oil prices that Venezuela has to thank for the news. ¶ “The result suggests the continuity of an unsustainable growth model that depends on increasing oil prices to propel domestic demand,” he says. “In the short run, we expect the government to continue to stimulate the economy by increasing expenditures, which could put the public sector in a more vulnerable position over the long term and may require significant reform after the 2012 presidential election.”¶ However, The Financial Times was quick to point out that the strongest growth (8% plus) experienced by Venezuela came in 2006 and 2007, when oil prices were around $60 a barrel. “It seems that oil prices now need to be much higher to support similar levels of growth, thanks to the government’s unorthodox economic policies,” says Benedict Mander. “[These] have failed to stop continued high inflation and left the private sector’s productive apparatus much diminished after ongoing expropriations and nationalisations.” President Hugo Chávez, as per usual, ignored the more nuanced analyses, keen to celebrate, tweeting: ““Well, steady growth once again started within our economy! Let’s push on everyone! Workers in the vanguard! We shall overcome!” Financial minister Jorge Giordani [added](http://www.bloomberg.com/news/2011-05-17/venezuela-s-recovery-from-latin-america-s-longest-slump-gaining-momentum.html): “Venezuela is turning the page and is in recovery,” Giordani said. “Growth will contribute to President Chavez’s leadership in the 2012 elections.” News was not all good in Venezuela, however. Inflation was up 1.4% in April from March, which is 22.9% up from April 2010. “Nothing exemplifies the mismanagement of Venezuela more than the electricity crisis,” says Miguel Octavio writing on his infamous [Devil’s Excrement](http://devilsexcrement.com/2011/05/17/electrical-crisis-continues-in-venezuela-despite-ample-rains/) blog. The crisis has been apparent for years and even hit the capital city Caracas recently. Rather than simply blame the lack of investment, Octavio puts pressure on the lack of planning and “capable people”. The government has [said](http://english.eluniversal.com/2011/05/12/venezuelan-authorities-expect-reliable-power-supply-in-2012.shtml), however, that it expects Venezuela’s power supply to be “reliable” in 2012, after installation of new thermal power units and the revamping of old equipment later this year. The power faults are [hitting](http://af.reuters.com/article/energyOilNews/idAFN128265820110512) oil production too. One hit Venezuela’s main refinery at Amuay, halting the 310,000 barrel-per-day Cardon facility there last week. Oil production [appears](http://www.nasdaq.com/aspx/stock-market-news-story.aspx?storyid=201105120925dowjonesdjonline000367&title=venezuela-april-oil-production-edges-lower-to-225-million-bbl-day-iea) to be down according to the International Energy Agency (IEA). Venezuelan production came in at 2.25m barrels a day in April, lower than the 2.26m produced in March. The IEA blames the problems on power supply. Chávez has been looking to focus on gold production to perhaps reduce the monopoly oil has on his success. He recently said that he wanted to make the precious metal, “a highly strategic resource for the country.” The means of doing this would be a state-run entity such as Petroleos de Venezuela, the much criticized oil company.

### XT Econ K2 Political Stability

#### Changes in oil revenue especially stem conflict.

Norden 10 (Deborah, Professor and Chair, Department of Political Science at Whittier College, “Sowing Conflict in Venezuela: Political Violence and Economic Policy”, 7/25/10, <http://pbrc.soka.edu/files/documents/working-papers/norden.pdf>) ALT

Economic outcomes that impact the probability of conflict include changes in wealth, both relative to past conditions and to other groups within society. Overall wealth over time can be measured by factors such as per capita GDP and real wages. In an oil-producing country like Venezuela, oil revenues are particularly important in generating wealth, and have a strong influence on consumption. Deteriorating economic conditions such as high inflation, declining productivity and its corollary, rising unemployment, contribute to ―relative deprivation‖ among a large proportion of the population.

#### Decline in oil prices kills Venezuelan political stability- empirics prove.

Norden 10 (Deborah, Professor and Chair, Department of Political Science at Whittier College, “Sowing Conflict in Venezuela: Political Violence and Economic Policy”, 7/25/10, <http://pbrc.soka.edu/files/documents/working-papers/norden.pdf>) ALT

Oil wealth has often anchored explanations of Venezuela’s successful post-1958 political stability. According to Terry Karl, along with providing resources, the oil industry also restructured the society (Karl 1987). Venezuela’s oil industry drew many agrarian elites into trade and encouraged rapid urbanization, thereby diminishing the potential for urban-rural cleavages. Oil wealth also meant that the government had sufficient resources to satisfy many different interests. The fact that Venezuela began to become less stable after the decline of oil prices in the early 1980s would appear to support the argument that oil income explains the shifts in political stability.

## Impacts

### US-Russia War

#### The US would take advantage of a Venezuelan econ collapse to cause a regime change

Fuentes 09 [Federico Fuentes is an independent journalist who reports on Venezuelan affairs. “US escalates war build-up against Latin American revolution” http://www.greenleft.org.au/node/42087]

The US State Department and the coup regime in Honduras have publicly stated what many of us already knew: the June 28 military coup was not just directed against Honduran President Manuel Zelaya, but also Venezuela and the unfolding Latin American revolution. On July 20, US state department spokesperson Phillip Crowley said he hoped Zelaya now understood that in "choosing a model government and a model leader for countries of the region to follow", the US believes "the current leadership in Venezuela would not be a particular model". "If that is the lesson that President Zelaya has learned from this episode, that would be a good lesson." The same day, vice foreign minister of the Honduran coup regime, Marta Alvarado, said: "Honduras is playing a very important role in the sense that the continuity or otherwise of the avalanche of the ALBA [Bolivarian Alliance of the Peoples of Our Americas] countries depends on Honduras, and whether the people who are under the pressure of the ALBA countries wake up." ALBA, an initiative of the revolutionary Venezuelan and Cuban governments, unites nine Latin American and Caribbean countries into an anti-imperialist bloc that combines solidarity-based trade agreements with a coordinated political intervention into regional politics. In response to the global economic crisis, the ALBA bloc has denounced the capitalist system. It has proposed radical measures that place the burden for the crisis on the capitalist elites who created it — not the workers and poor. This revolutionary challenge is a dangerous threat to an empire in decline. The June 28 coup in Honduras shows that, as the crisis deepens, Washington is increasingly turning to military solutions to "solve" this problem. With two failed coup attempts so far this century (Venezuela in 2002 and Bolivia in 2008) and one successful one (Haiti in 2004), this strategy is not new. But extending this strategy is becoming more likely — and more dangerous, as military incidents threaten to spill over the borders and become a regional conflict. Pro-imperialist governments in Latin America are aiding the US in this task. Colombia, which in March 2008 bombed Ecuadorian territory, has just opened the door to five new US military bases on its territory. This occurred just days after the US began to move out of its base in Ecuador, from which the government of President Rafael Correa expelled it. This move has been combined with a heightened propaganda campaign against Venezuela, not unlike the one that preceded the Iraq invasion.

#### Russia has billions in loans owed by Venezuela- they would intervene to protect their investment

Aljazeera 09 [Al Jazeera is an independent news and current affairs network praised for circumventing censorship and nominated as one of the five best news sites by the Webby Awards. “Russia lends Chavez $2bn for arms” http://www.aljazeera.com/news/americas/2009/09/200991493243497426.html]

Russia has agreed to lend Venezuela over $2bn to finance the purchase of weapons including tanks and advanced anti-aircraft missiles, Hugo Chavez, Venezuela's president, has said. He said his country, whose finances have suffered this year because of lower crude prices, needed to borrow the money for defence spending to avoid cuts in education and health. "We have to thank the Russian government, which approved a $2.2bn loan for arms spending," Chavez said on his weekly television show. The deal, which was agreed on his trip to Moscow last week, includes orders for 92 tanks and the S-300 missile system, which is capable of shooting down fighter jets and cruise missiles. A spokesman for the US state department said on Monday that Washington is concerned "about Venezuela's stated desire to increase its arms build-up, which we think poses a serious challenge to stability in the Western Hemisphere." Ian Kelly called on Caracas to abide by its its nuclear non-proliferation obligations. Venezuela has bought over $4bn of weapons from Russia in recent years, including 24 Sukhoi fighter jets.

#### Venezuela is a key ally of Russia- and a key debtor

RIA Novosti 11 [Russia international news agency is one of the largest Russian news agencies. “Russia ready to help Venezuela with weaponry purchases” http://en.rian.ru/mlitary\_news/20110826/166188794.html]

Moscow is ready to loan Venezuela $4 billion on purchases of military equipment, Russia's Kommersant newspaper said on Friday citing a diplomatic source. "Russia is ready to loan money to Venezuela," the source said. "Considering the current election campaign in the country, this loan would mean the opportunity to support our key ally in the region." Venezuelan Minister of Finance and Planning Jorge Giordani is expected to visit Russia in the near future to discuss the conditions of the loan with Russian officials. Earlier reports indicated that Caracas may ask Russia for an additional $6.5 billion on the development of infrastructure in the oil-rich Latin American country. Between 2005 and 2007 Venezuela reached deals to buy $4-billion worth of arms from Russia, including Sukhoi fighter jets, combat helicopters, and guns. Chavez' government also secured a $2.2-billion loan in 2010 to purchase Russian T-72 tanks and S-300 air defense systems.

#### Russia will intervene in a Venezuelan regime change- multi billion dollar investments are at risk

Karnova 11 [ Natalia Karnova is a Russian journalist working for RIA Novosti. “What Russia stands to lose if Venezuela sees a regime change” http://en.rian.ru/analysis/20111011/167579958.html]

Multi-billion dollar contracts between Russia and Venezuela, sponsored by Hugo Chavez, the incumbent president of this Latin American country, may be under threat. The health of the 57-year-old Venezuelan leader, who has ruled his country for almost 13 years, is deteriorating. This development comes not long before Venezuelans vote in presidential elections. A number of experts have been polled by Prime on what could, potentially, happen to Russian contracts in arms, oil, gas, energy, transport and agriculture, and what might be in store for the companies that concluded these contracts and are working in this Latin American country if Chavez goes. Investment and plans The Civilian Association Citizen Control for Security, Defense and Armed Forces reports that over the past six years the country has spent $15 billion on weapons and military equipment, with Russia accounting for $9.5 billion of that sum. Last week, a Russian delegation led by Deputy Prime Minister Igor Sechin visited Venezuela and signed an agreement on granting the Bolivarian Republic a $4 billion loan to continue this military-technical cooperation with Russia. Two billion will be allocated next year, and two more in 2013, Chavez explained. Development of the Junin 6 and Junin 3 oilfields on the Orinoco River is one of the major joint venture projects involving the two countries. Junin 6 is being developed by Russia's National Oil Consortium, which includes, on a parity basis, Gazprom Neft, Lukoil, Rosneft, Surgutneftegaz and TNK-BP, together with Venezuela's state company PDVSA. Junin 3 is being developed by Lukoil. Russian energy giant Inter RAO UES is planning to build a petroleum coke-fired power plant in Venezuela and is also interested in other projects. Russia is contemplating supplying more machines and equipment to this Latin American country and importing bananas and other agricultural produce.

#### Russia has been expecting a US invasion and has been arming Venezuela

Nazemroaya 06 [Mahdi Darius Nazemroaya is a Canada based sociologist and scholar, Research Associate of the Centre for Research on Globalization (CRG), specializing in geopolitical and strategic issues. “Russia Arming Venezuela in Anticipation of an Expected U.S. Invasion?” http://www.globalresearch.ca/index.php?context=va&aid=2854]

The Russian Federation and Venezuela on July 27, 2006 have negotiated and approved the sale of 24 aircraft and 53 helicopters—about a $1 billion (U.S.) deal—to Venezuela, as part of an ongoing landmark event, defying the American threats and demands to halt all weapons transfers and any future deals between Russia and Venezuela. Russia has already supplied and started delivering portions of a 100,000 Kalashnikov automatic rifles ordered by Venezuela and Russian attack helicopters to Venezuela. This deal has further entrenched Russian-Venezuelan cooperation, partnership, and the strategic shift of Russia replacing the United States as the military hardware supplier of Venezuela. The securing of this military hardware agreement between Russia and Venezuela is a sign of the fermenting geo-strategic confrontation or rivalry between the Russia and the United States. The United States slapped the weapons embargo onto Venezuela referring as justification to the strategic partnerships and alliances of Venezuela with Iran and Cuba. The U.S. weapons embargo on Venezuela started in May, 2006, and has including the U.S. putting pressure on Spain and Brazil to halt their agreements to supply military equipment to Venezuela. Venezuela has responded that the U.S. embargo is illegitimate in violation of previous agreements between Venezuela and the United States, and based on a premise for an American offensive against Venezuela. Venezuelan Army and Naval aircraft are almost all totally American manufactured, while the Venezuelan Air Force, with the most significant air fleet out of the three forces, had 177 U.S. manufactured aircraft out of a total fleet of 277 aircraft prior to the major military purchases from Russia. Venezuela has traditionally purchased its weaponry from the United States. Venezuela in 2005, alone, purchased about $34 (U.S.) million worth of U.S. military equipment. It is significant to note that just $30.5 (U.S.) million of these purchases were C-130 cargo plane spare parts. The American embargo seems to be a deliberate tactic that is part of strategy to disarm Venezuela, a notable source of fossil fuels and an influential state in Latin America and the Caribbean. The Venezuelan military’s F-5 Freedom Fighters, F-16 Falcons, C-130 cargo planes and American attack helicopters would for all practical purposes eventually be neutralized. That is why Venezuela immediately sought other defence manufacturers, which ultimately resulted in Russia replacing the United States in equipping the Venezuelan military. Possible Transfer of Venezuelan F-16 Falcon Squadron to Iran What is interesting is that in response to the U.S. weapons embargo on Venezuela, the Venezuelan government has declared that it is considering transferring Venezuela’s F-16 Falcon squadron and other U.S. manufactured military aircraft to the Iranian military. The United States blasted the Venezuelan idea saying that based on the 1982 sale and deal between the United States and Venezuela for the F-16 Falcons Venezuela could not sell the planes to a third party, in this case Iran, without U.S. approval, which the United States would definitely not give. The Venezuelan government maintained that the sale of the F-16 Falcon squadron is perfectly possible because the United States had violated and breached the contract by not honouring the obligation of supplying Venezuela the aircraft parts that Venezuela has paid for and as agreed upon purchase by Venezuela and the United States. The sale has been deemed by Western analysts to give no significant tactical benefit to Iran because of the fact that Iran is also under an American embargo and has no access to the spare parts needed to keep the aircraft operational, but then again the Iranian military has been reported to have successfully reengineered old American military hardware and is highly secretive. President Hugo Chavez is due in Tehran, Iran and Venezuela might just sell portions of their U.S. manufactured aircraft that are being replaced with Russian manufactured aircraft to Iran. The Venezuelan government has rapidly been shifting all its links and reliance away from the United States, all but the export of oil to the thirsting U.S. market which has also been outlined as an eventual strategic goal for Venezuela too. Deals have been negotiated for industrial and energy projects with both Russia and Iran. The rerouting of Venezuelan oil from the United States to China has been envisioned as part of the ultimate goal of Venezuela as a member of a[n] solidifying energy alliance between Venezuela, Russia, and Iran. This is why the United States has tagged President Hugo Chavez and the Venezuelan government as a threat to American energy security. As a result relations between Venezuela and the United States have been deteriorating. During February, 2005 the Venezuelan government publicly accused the U.S. government of plotting to assassinate President Chavez, something that the Venezuelan media has reported that the U.S. Ambassador to Venezuela admitted the U.S. government was aware of, but not a party too. In Russia, during his July meetings, the Venezuelan President Hugo Chavez triumphantly declared to the media that when the American blockade was imposed to weaken Venezuela for eventual U.S. invasion the Russian government had offered support to Venezuela. President Chavez and the Venezuelan government have clearly articulated that they are preparing the Venezuelan military to repel U.S. aggression, which is a widely held belief throughout Venezuela and neighboring Columbia.

#### The US already has plans to invade Venezuela- they’re waiting for a moment of instability to invade

Manilla Bulletin 10 [The Manilla Bulletin Publishing Corporation is the Phillipines’s largest newspapers. “Venezuela alleges invasion plot by US, Colombia” http://www.mb.com.ph/node/269021/venezuela-allege]

UNITED NATIONS, July 26, 2010 (AFP) – Venezuela told the United Nations Monday that the United States and Colombia have an "aggressive" plan to invade its territory, claiming this represents a threat to peace and security in the region. Venezuela's UN Ambassador Jorge Valero Briceno met with UN chief Ban Ki-moon, giving him a letter explaining the alleged threat, and explaining why his country broke off diplomatic ties with Bogota. The letter underscores the "aggressive plan against the sovereignty and territorial integrity of Venezuela" allegedly hatched by outgoing President Colombian Alvaro Uribe and Washington." He added that this plan shows "the great risk represented by the growing and dangerous presence of US military forces on Colombian soil and the reactivation of the (US) Fourth Fleet in the Caribbean Sea and Central and South America." He charged that the "growing military presence of the United States, with the support and the complicity of the current government of Colombia, is directed against the progressive movements of the region and represents a great threat to the peace and security of the continent." Valero also expressed hope that president-elect Juan Manuel Santos, who is to take office August 7, "does not follow the war-mongering plans" of Washington and Uribe and "gives clear and unambiguous signals that it has the political will to resume the path of dialogue." The letter calls on Colombia to resume peace talks with its leftist opponents. Uribe, who leaves office next month, charged earlier this month that leaders of the Revolutionary Armed Forces of Colombia (FARC) and the National Liberation Army (ELN) had taken refuge in Venezuela. His government went before the Organization of American States last week to present evidence that the leftist rebel groups were launching attacks on Colombia from havens in Venezuela. Speaking in Cuba, Venezuelan Electricity Minister Ali Rodriguez said Bogota's accusations were a "foul, vulgar and offensive pretext to attack Venezuela and attack the libertarian processes in our continent." Venezuelan President Hugo Chavez last week broke off relations with Colombia and on Sunday canceled a trip to Cuba, claiming the risk of a Colombian attack has never been greater. On Sunday, Chavez revealed intelligence information alleging that Washington and Bogota have prepared a military attack against Venezuela, including his assassination.

#### Invading Venezuela would collapse the US economy

Crude Oil Brokers 12 [Crude Oil Brokers Partners are facilitators for buyers and sellers of crude oil and are dedicated to providing top quality services to all our clients. “Venezuela Threatens To Cut Off Oil Exports To US” http://crudeoilbrokers.org/oil/venezuela-threatens-to-cut-off-oil-exports-to-us/]

Venezuela has placed fifth in the record of biggest oil exporters globally. Moreover, this country is an Organization of the Petroleum Exporting Countries (OPEC) member. It produces three million containers of oil per day, and sells 75% of its oil manufacture abroad. It distributes over a million containers of oil per day or supplies 13 percent of oil imports daily to America. Therefore, America is dependent on Venezuelan oil. US is in dire need of alternative refined oil product and crude oil suppliers, like Venezuela, for the reason of uncertain oil supply situation in Middle Eastern nations. Richard Lugar of American Senate thinks that a reduction in importation of Venezuelan oil can affect the US economy, as he asked a government office to conduct a study on this matter.

### XT China Intervention

#### China’s military and ideological ties to Venezuela will lead to a Chinese military intervention

#### Hearns 5 [Kelly Hearns is a staff writer for the Washington Times. “China’s Peaceful Invasion” http://www.washingtontimes.com/news/2005/nov/20/20051120-124045-3471r/]

China appears to be pushing to sell arms and technology to Latin America, especially to Venezuela, a key ideological partner that is working to reduce dependence on the U.S. as a primary weapons supplier. China recently offered to sell Venezuela its new FC-1 fighter, a potential follow-up on its failed bid in 2001 to sell Caracas its low-tech K-8 training aircraft, one U.S.-based intelligence source says. Venezuelan President Hugo Chavez signed deals to purchase long-range defense radars and a modern communication satellite from China. In August, Venezuelan Defense Minister Orlando Maniglia and Qu Huimin, vice president of China’s state-owned Electronics Import and Export Corp., signed a deal for the purchase of [and] three Chinese JYL-1 mobile air-defense radar systems. The contract provides for radars, a command-and-control center, technical support and leased access to a satellite communication network. At least two of the radars will replace two U.S.-made models, according to Jane’s Defence Weekly, a leading defense industry publication. The radar deal and other technology transfers threaten to lock Venezuela into technological platforms that increase its dependency on Chinese technology, says Richard Fisher, a senior fellow at the Jamestown Foundation in Washington. “We can anticipate that Chavez will soon be buying Chinese weapons,” Mr. Fisher says of the Venezuelan president. On Nov. 1, Mr. Chavez signaled a deepening military relationship with Beijing during a ceremony announcing a deal in which China will manufacture a communications satellite for Venezuela and train its technicians there.

### XT Russia Intervention

#### A US invasion of Venezuela will draw in their ally Russia- the head of the Russian military says Russia will intervene with nukes

#### Isachenkov 11 [Vladimir Isachenkov is an Associated Press writer based in Moscow. “Nikolai Makarov, Russia Military Chief, Sees Rising Risk Of Nuclear Conflicts” http://www.huffingtonpost.com/2011/11/17/nikolai-makarov-russia-nuclear-conflict\_n\_1100100.html]

Makarov added, according to Russian news agencies, that "under certain conditions local and regional conflicts may develop into a full-scale war involving nuclear weapons." A steady decline in Russia's conventional forces has prompted the Kremlin to rely increasingly on its nuclear deterrent. The nation's military doctrine says it may use nuclear weapons to counter a nuclear attack on Russia or an ally, or a large-scale conventional attack that threatens Russia's existence.

#### Venezuela’s alliance with Russia will get Russia involved in a US regime change

#### Fox 8 [Fox news is a major news agency in America. “Chavez Claims Alliance With Russia Will Protect Venezuela” http://www.foxnews.com/story/0,2933,388821,00.html]

On Tuesday, Chavez called for a strategic alliance with Russia to protect his country from the United States, having repeatedly accused Washington of plotting an invasion to destabilize his government. The Venezuala-Russia alliance would mean "we can guarantee Venezuela's sovereignty, which is now threatened by the United States," Chavez told reporters shortly after his arrival in Moscow. Chavez is in Russia to broker a number of deals involving weapons purchases, oil exploration and possibly the creation of a joint financial institution. Venezuela's state-run oil company Petroleos de Venezuela SA signed separate deals with three Russian energy companies — Gazprom, Lukoil and TNK-BP — during the first day of Chavez's visit. In addition, Russian media have reported that Chavez is expected to reach a number of agreements for purchasing Russian military hardware while in Moscow, with one paper reporting the deals could be worth up to $2 billion.

#### Iran-Venezuela alliance is huge threat to US.

Mahjar-Buducci 11 (Anna, Policy Analyst at the Gatestone Institute, “Iran Preparing Serious Cyber Attack Against the U.S. from Latin America”, 12/14/11, Gatestone Institute, International Policy Council, <http://www.gatestoneinstitute.org/2662/iran-cyber-attack-against-us>) ALT

Univision's cry of alarm against Iranian activities in South America is not the first of its kind. Iran's ties with Venezuela have been growing steadily during the presidency of Hugo Chavez. Iran also enjoys excellent relations with countries such as Bolivia, Ecuador, Nicaragua, not to mention the South American giants, Argentina and Brazil. The improvement of these relations has gone hand in hand with the expansion of Islamist groups in South America, in particular Hezbollah, which once were relegated to the Tri-Border Area (Paraguay, Brazil and Argentina). Siince then, they have been expanding their zone of interest farther and farther north to reach Venezuela and Mexico, at the doorstep of the US. The United Stated has constantly underestimated the danger coming from Iranian activities both in Iran and in South America. In particular, the Obama administration has failed to confront the Iranian threat with effective firmness. After his election, President Barack Obama declared that he was willing to talk to Iran "without pre-conditions,",only to receive, in exchange, threats from the Iranian regime. "La Amenaza Irani" is a courageous testament to investigative journalism. It warns of a genuine threat to be dealt with utmost urgency. Let us hope that its warning does not fall, once again, on deaf ears in Washington.

#### Venezuelan economic collapse spreads instability to rest of Latin America.

Diehl 10 (Jackson, Deputy Editorial Page Editor of The Washington Post. He writes many of the paper's editorials on foreign affairs, helps to oversee the editorial and oped pages and authors a regular column, PhD from Yale, “Hugo Chavez's implosion continues in Venezuela”, 5/26/12, The Washington Post, <http://voices.washingtonpost.com/postpartisan/2010/05/hugo_chavezs_implosion_continu.html>) ALT

And, of course, the implosion of Chavez’s potted socialism does matter to the rest of Latin America. It’s not just that the Obama administration no longer needs to bother with the strongman, since he is doing an excellent job of self-destruction. It’s that Venezuela’s clients and imitators -- especially in Bolivia and Nicaragua -- stand to lose both subsidies and ideological sustainment from Caracas. Chavez’s decade-long attempt to create a bloc of like-minded countries around the region is in tatters.

#### Decrease in oil revenue means Venezuela joins drug trade.

Miller, 10 (Gregory, Professor at Oklahoma State University, Ph.D. in Political Science from The Ohio State University, also taught at College of William & Mary, “The Security Costs of Energy Independence”, April 2010, The Washington Quarterly, <http://csis.org/files/publication/twq10aprilmiller.pdf>) ALT

Based on these trends, many OPEC states will likely continue to become more dependent on oil revenues unless steps are taken now to eliminate some of the future security concerns. OPEC states outside of the Middle East seem better ituated to withstand the loss of oil revenue, although making comparisons with regional neighbors suggests that the same security threats discussed above are possible. For example, Latin America has three major oil-exporting states: OPEC members Ecuador and Venezuela and nonmember Mexico. Venezuela and Mexico are much better off economically than their Latin American neighbors, 18 at least partly because of oil; Venezuela gets nearly one-fourth of its GDP from the sale of petroleum. Although internal conflict already exists there, the security threat will likely grow if Venezuela suffers a significant reduction in its petroleum revenue. In addition, the loss of Venezuela’s oil income will force that government to make a choice. One path involves economic hardship similar to experiences in other Latin American states, such as Bolivia and Paraguay. The second path involves the narcotics trade. As we have seen with Colombia, even if the Venezuelan government chooses to stay out of the drug trade, individuals within the country will likely opt in rather than suffer personal hardship.

#### Venezuela conflict escalates- military alliance with Russia, Iran, China.

Kroth 6/23/12 (Olivia, “Venezuela's partnership with Russia: An emblematic step”, /23/12, Pravda, http://english.pravda.ru/russia/economics/23-06-2012/121459-venezuela\_russia-0/) ALT

The series of rifles, made in Venezuela, is named "Catatumbo," after a river that flows into Lake Maracaibo in the state of Zulia. "Catatumbo" lightning occurs over the marshlands at the Maracaibo mouth of the Catatumbo River during storms at night. The very strong light can be seen up to 400 kilometers away and has been used for ship navigation. It was therefore also called the "Maracaibo Beacon." The beacon of the Venezuelan Armed Forces is its series of "Catatumbo" rifles. The newest feat which President Chávez proudly presented a few days ago is Venezuela's fist unarmed drone, built with joint Russian - Iranian - Chinese technology and assistance. "It is one of three aircraft that we have made, and we will continue to manufacture them," he announced. The drone has a range of 100 kilometers, can reach an altitude of 3000 meters and stay aloft for up to 90 minutes. It transmits real-time video and images. The 3x4 meter drone is part of Venezuela's defense system, aimed at the monitoring of dams, pipelines and other infrastructure.

### US-Venezuela Relations

#### Oil key US- Venezuela relations- 60% of Venezuelan exports.

Alvarez and Hanson 09 (Cesar and Stephanie, “Venezuela's Oil-Based Economy”, 2/9/09, Council on Foreign Relations, <http://www.cfr.org/economics/venezuelas-oil-based-economy/p12089#p7>) ALT

Though Venezuela has repeatedly threatened to cut off its oil exports to the United States, analysts say the two countries are mutually dependent. Venezuela supplies about 1.5 million barrels of crude oil and refined petroleum products to the U.S. market every day, according to the EIA. Venezuelan oil comprises about 11 percent of U.S. crude oil imports, which amounts to 60 percent of Venezuela’s total exports. PDVSA also wholly owns five refineries in the United States and partly owns four refineries, either through partnerships with U.S. companies or through PDVSA’s U.S. subsidiary, CITGO. A U.S. Government Accountability Office (GAO) report (PDF) says Venezuela’s exports of crude oil and refined petroleum products to the United States have been relatively stable with the exception of the strike period. The World Bank's Frepes-Cibils says “Venezuela will continue to be a key player in the U.S. market.” He argues that in the short term it will be very difficult for Venezuela to make a significant shift in supply from the United States.

#### US oil imports key to prevent Venezuelan lashout; withdraw of oil sales might fulfill rhetoric.

Rodriguez 12 (Erika, LAB online news editor, “Venezuela's love affair with China”, 3/1/12, Latin American Bureau, <http://www.lab.org.uk/index.php?option=com_content&view=article&id=1261:venezuelas-love-affair-with-china&catid=66&Itemid=39>) ALT

In 2007 Hugo Chavez stated that he was willing to cut off the supply of oil to the USA, even if it had severe repercussions for the country. "The Yankee Empire has no limits to its manipulation", he said. "We will cut US oil, even if we have to eat rocks as a result. We will respond to imperialist pretensions and we do not approve of them being the world's policeman as it leads to them trampling on the sovereignty of the people, abusing our poor nations and taking advantage of our precious oil. " In reality, much of this grand-standing was just empty rhetoric. The US remains the most important market for Venezuela's oil and it is likely to remain so, as it is currently the only country that has the refineries needed to process Venezuela's heavy oil. Only last year, Venezuela exported an average of 979,000 barrels of oil per day to the US, much more than to any other country. However, China, is catching up: while it was not buying any oil from Venezuela at the end of the 20th century, it now imports close to 400,000 barrels per day.

#### That escalates to war with a Venezuela-Russia-China alliance

Ellis 10 (Ashton, Contributing Editor at the Center for Individual Freedom , “Venezuela, Iran & Russia: A VIRUS to American Foreign Policy”, 10/19/10, Center for Individual Freedom, http://cfif.org/v/index.php/commentary/45-foreign-policy/785-venezuela-iran-a-russia-a-virus-to-american-foreign-policy-)

What do you call an axis of authoritarian regimes united by a rejection of the United States and free market capitalism? A ‘VIRUS’ for 21st century freedom. The acronym comes from an oft-repeated grouping of Venezuela, Iran and Russia; countries led by three governments that share a statist’s preference for top-down micro-management. Though technically elected, Venezuela’s Hugo Chávez, Iran’s Mahmoud Ahmadinejad and Russia’s Vladimir Putin each have eliminated effective competition by rigging their electoral systems to stay in power. How they use their power should concern all Americans. With technical and financial assistance from Russia, Venezuela and Iran are threatening to destabilize their respective regions as they race to develop nuclear weapons. Hugo Chávez is trying to reincarnate himself as Simón Bolívar; the failed Latin American version of George Washington, and namesake for Chávez’s ‘Bolivarian’ axis. That list of struggling socialist countries includes Bolivia, Cuba, Ecuador and Nicaragua. By denouncing former President George W. Bush as the devil without repercussion, and mugging for the cameras with President Barack Obama, Chávez is showing his neighbors that he is a player on the global stage. The recent announcement of a Russian-financed nuclear technology program in Venezuela further raises Chávez’s profile. It also solidifies him as a catalyst to radically reorient Latin America’s security situation. Already, Brazil is mulling whether to shift at least some of its nuclear apparatus towards bomb-making; a radical change of direction for one of the few nuclear nations that hasn’t weaponized its technology. Chávez’s formula for success is merely a repetition of the strategy played to perfection by Iran’s Mahmoud Ahmadinejad. First, take Russian money and know-how to build the infrastructure necessary to enrich uranium. Claim it is for “peaceful” purposes while refusing to be transparent with international inspectors. Then, mix hundreds of millions of petrodollars with an unyielding desire to become the region’s most feared nuclear nation. Flout economic sanctions as necessary. Buy off your own people when possible. The results are paralyzed neighbors and dependent citizens. “The debate now is whether Iran will have a nuclear bomb in one year or in three years,” says Dr. Ariel Cohen, Senior Research Fellow at the Heritage Foundation’s Kathryn and Shelby Collum Davis Institute for International Studies. According to Cohen, the development of an anti-American axis in the Middle East is being fomented by Iran’s nuclear ambitions with Russia’s assistance. “This puts pressure on America’s allies (in the region), and affects the energy and security situation in the Middle East.” Traditionally, regional leadership has been a prerogative of Egypt and Saudi Arabia. That will change when Iran gets the bomb. “If Iran develops a nuclear weapon,” warns Cohen, “the balance of power shifts towards it.” Shifting the balance of power towards anti-American authoritarian regimes in the Middle East and Latin America extends the Russian brand of governance without committing ground troops. Why would it when Russia can be just as effective using seed money to help oppressive states strengthen their position? In Venezuela and Iran, the Russian government recognizes the conditions for authoritarian success: citizens increasingly dependent on government largesse, an abundance of natural resources to control and an appetite for nuclear weapons. The strengthening of this network limits the options not only of citizens within their borders, but all those within reach of their nuclear warheads. No wonder Russia’s Putin sees Chávez and Ahmadinejad as good investment opportunities. Great egos dictate alike.

#### Venezuela and Russia alliance turns heg- goal is to create multipolar world.

Kroth 6/23/12 (Olivia, “Venezuela's partnership with Russia: An emblematic step”, /23/12, Pravda, http://english.pravda.ru/russia/economics/23-06-2012/121459-venezuela\_russia-0/) ALT

Under President Chávez, Venezuela is enjoying good relations with Russia as one of its most important trade and military partners in Latin America. By strengthening Venezuelan-Russian ties, Hugo Chávez wants to help create a multi-polar world, "a world that permits the rights of peoples to liberty, self-determination and sovereignty". Over the past years, while the Russian Federation has been led by Vladimir Putin either as Prime Minister or as President, the ties between Chávez and Putin have become stronger. Both leaders are ardent patriots, proud to serve their respective countries which they love with great intensity. Both men share similar views on many topics, for example the role of the USA in global economics. Hugo Chávez agreed with Vladimir Putin's opinion that the USA is an "economic parasite" because of its "constant instability and high debts, living far beyond its means and transferring the burden of its problems to the entire world economy." On Venezuelan television (VTV), President Chávez repeated Vladimir Putin's words, demanding Venezuela to "free itself from the parasite." Venezuela has the largest oil reserves, and is the fifth biggest oil exporter worldwide. In the twelve years of Hugo Chávez' government, Venezuela transferred its international funds from US banks to other banks in different parts of the world. Furthermore, Venezuela paid back all of its debts to US banks and ended its dependence on the IMF.

### Relations turn Terrorism

#### Disad turns case- Venezuela fosters terrorists.

Xinhua News Agency 06 (“US Report: Venezuela 'Potential Hub of Terrorism' in America” 10/20/06, <http://www.china.org.cn/english/international/185315.htm>) ALT

Venezuela is appearing as a "potential hub of terrorism" in the America in the eyes of US officials, said a congressional report released on Thursday. "According to senior US military and intelligence officials, Venezuela is emerging as a potential hub of terrorism in the Western Hemisphere, providing assistance to Islamic radicals from the Middle East and other terrorists," said the report at a House of Representative panel. Venezuela has issued thousands of social security cards to people from Cuba, Colombia and "Middle Eastern nations that host foreign terrorist organizations," said the report, released by the subcommittee chairman, Texas Representative Michael McCaul.

### Poverty

#### High Oil Prices allows Chavez to increase social spending- key to fight poverty

CFR 9- Council of Foreign Relations (Stephanie Hanson and Cesar J. Alvarez,, “Venezuela's Oil-Based Economy”, http://www.cfr.org/economics/venezuelas-oil-based-economy/p12089 )

Venezuela's proven oil reserves are among the top ten in the world. Oil generates about 80 percent of the country’s total export revenue, contributes about half of the central government’s income, and is responsible for about one-third of the country’s gross domestic product (GDP). Increases in world oil prices in recent years have allowed Venezuelan President Hugo Chavez to expand social program spending, bolster commercial ties with other countries, and boost his own international profile. Though Chavez has threatened to stop exporting Venezuelan oil and refined petroleum products to the United States, its biggest oil-trading partner, experts say a significant short-term shift in oil relations between Venezuela and the United States is unlikely. The medium-term outlook for state oil company PDVSA is questionable, however, and analysts draw links between PDVSA's profitability and the political stability of the country. Analysts say the recent global financial crisis and sudden drop in oil prices are adding to the oil company's financial turmoil. Hugo Chavez took office in 1999. Since then, Venezuela’s economy has remained squarely centered on oil production. In 2006, Chavez announced a nationalization of oil fields managed by foreign companies, which resulted in an increase of the government’s shares in these projects from 40 percent to 60 percent. Government officials argue, however, that economic growth efforts are not solely focused on oil. Venezuela’s ambassador to the United States, Bernardo Alvarez Herrera, wrote in a 2006 Foreign Affairs essay that the non-oil sector, which includes mining, manufacturing, and agriculture, grew 10.6 percent in 2005, “indicating an important diversification of the country's economy.” Yet even if the country is working to diversify,“oil still predominates,” says Miguel Tinker-Salas, a professor of Latin American history at Pomona College. In 2002, the Venezuelan economy experienced a significant downturn following a failed military coup to overthrow Chavez and a two-month strike by the state-run oil company PDVSA. The response to the strike—the dismissal of more than seventeen thousand PDVSA employees—resulted in a rapid drop in GDP between 2002 and 2003. In subsequent years, rising international oil prices helped the economy to recover. In 2007, the International Monetary Fund (IMF) estimates, economic growth was 8.4 percent. Opinion is divided over the effect of Chavez's policies on Venezuela's economy. Some economists say the tremendous rise in social spending under Chavez has greatly reduced poverty and pushed unemployment below 10 percent, its lowest level in more than a decade. According to a February 2008 report from the Washington-based Center for Economic and Policy Research, not only has unemployment dropped, formal employment has increased significantly (PDF) since Chavez took office. But other economists express concerns about the country's high inflation levels. The IMF has forecast inflation of 25.7 percent in 2008 and 31.0 percent in 2009—among the highest rates for any country in the world—and according to news reports, the country is already experiencing food shortages of goods such as sugar and milk. Francisco Rodriguez, former chief economist of the Venezuelan National Assembly, writes in a 2008 Foreign Affairs article that income inequality has increased during Chavez's tenure, and further, Chavez's social programs have not had a significant impact on infant mortality rate or literacy rates among Venezuelans.

#### High revenues in Venezuelan oil specifically key to Social programs

CFR 9- Council of Foreign Relations (Stephanie Hanson and Cesar J. Alvarez,, “Venezuela's Oil-Based Economy”, http://www.cfr.org/economics/venezuelas-oil-based-economy/p12089 )

It is difficult to determine how Venezuela has been spending its oil windfall, given the lack of government transparency (the country ranks 162 out of 179 countries ranked on Transparency International's corruption index). However, from the few official figures the government has released and its stated pledges of aid to foreign countries, it is possible to glean a picture of billions of dollars dispersed on activities not directly related to PDVSA's core business. Analysts express frustration that these reports lack detail, and efforts by news organization to obtain further information from government agencies have been rebuffed (NYT). PDVSA has transferred billions of dollars to Fonden, the off-budget investment fund many experts say is financing Chavez's social projects. According to International Oil Daily, an energy trade publication, PDVSA spent $14.4 billion on social programs in 2007 (as compared to $6.9 billion in 2005). These programs include projects such as medical clinics providing free health care, discounted food and household goods centers in poor neighborhoods, indigenous land-titling, job creation programs outside of the oil business, and university and education programs. Increased oil revenues have also given Chavez the ability to extend assistance programs outside Venezuela’s borders. For example, he provides oil at a preferential price to many countries in the Caribbean through the Petrocaribe initiative. In 2009, a Venezuela-backed home heating program to low-income households in the United States was briefly halted, a sign that low oil prices may be forcing Chavez to reconsider (TIME) some of his social programs. In August 2007, the Associated Press calculated that Chavez had promised $8.8 billion in aid, financing, and energy funding to Latin America and the Caribbean between January and August 2007, a figure far higher than the $1.6 billion of U.S. assistance for the entire year. Though it is impossible to determine how much of that funding was actually dispersed, the difference in aid is striking. Chavez is also suspected of funneling money to the FARC, a Colombian guerrilla group, as well as providing funds to Argentine President Cristina Kirchner’s election campaign in 2007—though he denies both charges.

# Canada – NEG

## Links

### Link - US Consumption Key

**Canada is dependent on U.S. oil consumption**

**Shufelt 12** - National Post Staff Writer (Tim, “Crude Awakening; Canadian Energy Producers Will Have To Step Up Their Game If The U.S. Becomes Self-Sufficient In Meeting Its Needs,” June 19, 2012, http://business.financialpost.com/2012/06/19/canadian-energy-producers-will-need-to-step-up-their-game-if-u-s-becomes-self-sufficient/)//CN

The great divide between the capacity of the United States to produce oil and its ability to consume it has, for decades, dominated the global oil trade. This oil deficit has created the world's largest national market for foreign crude, which has happily allowed energy exporting powers to find a dependable source of riches in Americans' thirst for oil. The viability of the Canadian oil sands, for one, is predicated on exploiting that shortfall. But as the U.S. increasingly produces more oil while using less of it, the global energy market is reshaping, reversing established trends on both the production and consumption sides of the U.S. oil industry. Entrenched trade relationships are changing and oil-producing countries such as **Canada** need to rethink their dependency on U.S. consumption. "The U.S. has become the fastest growing oil and natural gas producing area of the world," noted a recent report by Citibank analysts, who predicted North America will become "the new Middle East by the next decade." By applying to shale oil properties the same hydraulic fracturing techniques that recast the North American natural gas industry, once dwindling U.S. crude supplies are now increasing. Today, so-called tight crude, primarily produced from the Bakken shale property in North Dakota and the Eagle Ford formation in Texas, is filling pipelines and flooding refineries.

## Internal Links

### Oil K2 Econ

#### Lowering of oil prices damages Canada’s econ

Williams 7/13 [“Canada Experiences Job Growth as Economy Creates High-Paying Jobs”, whichwaytopay.com, July 13, 2012]

Employment rates in Canada rose by 1.1 percent with the number of employees in high-paying sectors increasing by an encouraging 1.6 percent.¶ In other economic news, earlier in the week it was recorded that Canada has experienced a second successive monthly trade deficit. This implies how the flailing economies of other countries, particularly in the eurozone, have begun to impact Canada’s economy and its exporters.¶ The number of full-time employees has increased in regions such as oil and gas extraction, petroleum and coal manufacturing and heavy and civil construction. This fact is not just beneficial for Canadian employment rates but for the export side of the economy as China continues to import Canada’s raw materials.¶ Nevertheless the increase in employment in the export-orientated jobs will decline unfortunately as this is where many high paying jobs lie.¶ A decrease in oil prices, including the lowering of crude oil prices which was financially damaging for Canada, has threatened to affect Canada’s gas and oil sectors.¶ The recent success of the Canadian employment rates is sure to be short-lived. ¶

#### Canada’s Economy powered by High Oil Prices

Martell 6/27 [“CANADA STOCKS-TSX rise on stronger oil price; eye on EU summit”; Reuters.com, Alison Martell]

¶ ¶ TORONTO, June 27 (Reuters) - Canada's main stock index moved¶ higher on Wednesday as energy stocks rose with U.S. crude prices¶ and investors looked ahead to a critical European Union debt¶ crisis summit on Thursday and Friday.¶ Although few expected the EU summit to resolve the region's¶ escalating debt woes there was faint hope for small progress.¶ ¶ "We're all waiting to see what happens with the European¶ summit, whether something constructive or useful can be done,¶ and as a result of that I think people are being fairly cautious¶ in their trading," said David Baskin, portfolio manager and¶ president of Baskin Financial Services.¶ At about 12:10 a.m. (1610 GMT) the Toronto Stock Exchange's¶ S&P/TSX composite index was up 67.99 points, or 0.6¶ percent, at 11,402.41.¶ U.S. crude rose after data showed demand for long-lasting¶ U.S. manufactured goods rebounded more than expected in May.¶ Energy stocks were also supported by news U.S. Energy¶ Information Administration said crude oil and distillates¶ stockpiles fell last week. ¶ Oil and gas stocks, up 0.8 percent, played the biggest role¶ in lifting the Toronto index.¶ Shares of fertilizer producers also rose as U.S. new-crop¶ corn futures hit a nine-month high as operators worried about¶ damage to corn from hot, dry weather in the Midwest grain belt.¶ ¶ Fertilizer stocks typically track the price of¶ fertilizer-intensive corn closely as higher grain prices are¶ likely to spur farmers to increase use of crop nutrients.¶ In the fertilizer group, Potash Corp rose 1.6¶ percent to C$44.25. Pipeline operator TransCanada Corp ¶ was 1.7 percent higher at C$41.95. The two companies played the¶ biggest role in pulling the index higher.¶ The index's heavyweight materials sector, which includes¶ gold miners, edged up 0.12 percent. Gold was little changed,¶ reversing from early losses. ¶ MacDonald Dettwiler and Associates Ltd soared 24.3¶ percent to C$55.50 after it agreed to buy Loral Space &¶ Communications Inc's satellite manufacturing¶ subsidiary. MDA said the deal will immediately boost its¶ earnings.

#### Canada has historically benefited from high oil prices

Cattaneo & Berkow 5/12 [“Canadian Oil Price Disadvantage to Ease; Costs $50M a Day”, Financial Times, Claudia Cattaneo & Jameson Berkow, 5/12/12]

In a report this week, Ms. Mohr predicted the Seaway reversal would provide a psychological boost to the Canadian industry, which has been battling environmental organizations targeting pipeline expansions as a way to choke oil sands growth. Many have been moving oil on trains, trucks and barges to bypass the glut.¶ Enbridge said this week it expects the reversal to go ahead as scheduled. An Enterprise representative did not immediately respond to a request for comment.¶ U.S. pipeline bottlenecks have been the primary culprit of the multiple discounting of Canadian crude even though world oil prices surged well above US$100 a barrel.¶ The bottleneck has created a record high storage of more than 42 million barrels at Cushing, the NYMEX pricing point.¶ The unprecedented discounting prompted Bank of Canada governor Mark Carney to warn of damage to the overall Canadian economy due to the low oil prices realized in Western Canada, while consumers and businesses are paying high global prices. As a major oil producer, Canada has historically benefited from high global oil prices.

#### Low Oil Prices Hurt All Sectors of Canadian Economy

Shmuel 12’ [Canada Caught In Oil Pinch; “Central bank highlights energy prices as key economic threat” , Financial Times, John Shmuel, 4/19/12]

The Bank of Canada may have painted a rosier picture for Canada's economy Wednesday, but it warned that an unlikely culprit was harming the country's growth: oil prices.¶ In its quarterly Monetary Policy Report, the bank called attention to what it sees as the "unfavourable" distortion that has developed between Canadian oil prices and global prices. Despite the fact that Canada is a major oil producer, prices for Canadian crude have fallen below those in both the United States and Europe, owing mainly to the massive oil glut that developed earlier this year at U.S refineries in the Midwest, where much of Canada's crude is pumped.¶ And while Canada gets paid less for its oil in global markets, provinces that rely on global oil imports are paying more.¶ "The increase in the price of our oil imports raises production costs for Canadian firms and also puts upward pressure on gasoline prices, since about half of the gasoline purchased in Canada is produced using refined petroleum priced off Brent [crude]," the bank said. Brent is one of two major global oil benchmarks, the other being West Texas Intermediate.¶ The prices Canadian producers receive for this country's crude tend to be lower than WTI to begin with, given the fact that WTI prices are based on sweet crude and Canada's exports to refineries are a heavier variant.¶ However, the massive production of oil from the Alberta oil sands, combined with an influx of production from the Bakken formation in North Dakota and Minnesota, has led to a surplus of oil that has backed up refineries in the U.S. Midwest.¶ A temporary shutdown of BP PLC's refinery in Whiting, Ind., earlier this year only added to the back up.¶ Charles St-Arnaud, Canada economist with Nomura Securities International, said in an interview the spread between WTI and Canadian crude prices ranged between $25 and $55 a barrel lower in February and March as producers found it harder to sell their oil. The historical discount is more in the area of $15.¶ And it's not just oil producers Alberta and Saskatch-ewan that are hurt by lower oil prices. As importers of oil, Central and Eastern Canadaare are also being slammed by the price distortion.¶ "The issue now is that the benefit from the oil-producing provinces isn't enough to compensate for the damage being done to the rest of Canada," Mr. St-Arnaud said.¶

#### Oil Prices are key to Canada’s economy- decline drives up the defecit

**CBC News 12-** Canada Broadcasting Company (N.L. warns plummeting oil price may drive up deficit, Jun 19, 2012, http://www.cbc.ca/news/canada/newfoundland-labrador/story/2012/06/19/nl-oil-prices-619.html)//CN

Newfoundland and Labrador Premier Kathy Dunderdale is warning further belt tightening may be necessary if the price of oil continues to drop much lower than the government forecast in its budget preparations. "We are watching very carefully, and our deficit may end up at the end of the year larger than we forecasted .… We are keeping a very tight grip on the purse strings at the moment in terms of sanctioning spending that we announced in the budget,” Dunderdale said at a Newfoundland and Labrador Oil and Gas Industries Association (NOIA) conference in St. John’s Tuesday. "It’s early on, and I hope we are going to recover, but we will have to wait and see. [The price of oil] is trending down, and there is no prediction that it is going to go up anytime soon." Brent Crude was trading around $95.82 per barrel on Tuesday morning, far below the average price of $124.12 that the government set as the annual average for its budget. Dunderdale said one third of the province’s revenue is derived directly from the petroleum sector. She said the industry provides direct employment for more than 3,000 people but indirectly employs for thousands more. Hebron promiseMeanwhile, Dunderdale is promising to hold oil companies to their promise to build Hebron oilfield structures in this province. “We expect Exxon to live up to the terms of the Hebron Benefits Agreement and we will pursue the available avenues under the agreement should Exxon not reconsider its present direction,” she said Tuesday. “We would rather not go to a process where penalties are applied. We would much rather have the work for Newfoundlanders and Labradorians.” ExxonMobil said recently that it is considering building the Hebron drilling equipment module outside Newfoundland and Labrador, saying the province’s building capacity is too small. “With Hebron, as with every development project, I make no apologies for fighting hard to secure maximum benefits for Newfoundland and Labrador, leaving no stone unturned to ensure we are as fully engaged as possible in all the work associated with this project,” she said. ExxonMobil, Chevron, Suncor Canada, Statoil Canada and Nalcor Energy are partners in the Hebron project.

Low oil prices crushes Canada’s economy-oil is the backbone

**TERTZAKIAN 12 -** Economist, investment strategist, author and public speaker. Chief Energy Economist & Managing Director at ARC Financial Corporation, an energy-focused private equity firm. (PETER, “Lower oil prices will crimp industry spending,” The Globe and Mail, Jun. 12 2012, http://www.theglobeandmail.com/report-on-business/industry-news/energy-and-resources/lower-oil-prices-will-crimp-industry-spending/article4250304/)//CN

A billion dollars every week. That’s the rate at which the oil and gas industry invests capital into Canada. Other than 2009 – the depths of the financial crisis – that pace of injecting money into the economy has been fairly steady since 2006. However, leading indicators suggest that corporate wallets are getting leaner. Spending is likely to slow down in the second half of this year, contributing to a year-over-year decrease of about 15 per cent. Commodity price weakness is the biggest factor contributing to the slowdown. Natural gas prices are at their lowest level in over a decade. Per barrel, North American crude oil prices have lost $15 of their lustre in the past month. Discounted Canadian oil prices relative to U.S. markets are further eroding revenue and cash flow. And it’s cash flow that matters, because producers typically reinvest every dollar of what they realize back into the ground. Right now the industry’s fortunes are particularly sensitive to variations in oil price. In Canada, the combined sale of conventional oil plus oil sands now represents 90 per cent of the revenue mix. The remaining 10 per cent is natural gas, which has been marginalized by low price and declining production. The dollars are big on 3.7 million barrels a day of Canadian oil production (all grades). Every $10 (U.S.) per barrel drop in the benchmark price of West Texas Intermediate (WTI) oil trickles down into a loss of about $125-million (Canadian) per week in after-tax industry cash flow. Even before the recent oil price slide, the talk around the Calgary Petroleum Club was one of greater austerity. Those sentiments were echoed in first-quarter financial reports and recent announcements. A review of the guidance of 29 publicly-traded oil and gas producers – large and small companies representing about 40 per cent of Canada’s conventional (non-oil sands) volume output – reveals that 21 of them are cutting back. Year-over-year, the announced spending cuts average 20 per cent, although this theme of frugality is not uniform. From our 29-company sample set, Figure 1 shows a histogram of the expected change in conventional capital expenditures (excluding the oil sands), 2012 versus 2011. The range varies from a near complete shutdown (-75%) to a robust increase (+50%). There is a predictable polarization of spending behavior in Figure 1; companies leaning to the left of the spectrum are those with a lot of natural gas baggage. Cashed up companies with a good inventory of light tight oil (LTO) prospects are on the positive side of the scale. The guidance expressed in Figure 1 was taken back at the end of March, when the price of oil was well above $100/B. Not anymore. If the price of oil remains in the mid $80/B range, we should expect to hear of further spending restraint, especially on the conventional side of the business that represents 60 per cent of the industry. The other 40 per cent is composed of oil sands projects that are funded by deep-pocketed multinationals that are less affected by near-term fluctuations in cash flow. So, current spending on oil sands is unlikely to budge much from $20-billion per year. A lagging consequence of commodity price weakness is lower drilling activity (non-oil sands), which is already a reality in natural gas play areas. Conventional oil drilling is now likely to pull back too. Summer rig activity is already looking a bit weak. It’s not that $85 (U.S.) is a bad price for a barrel of light oil; the issue is that cash flow for investing into high-cost horizontal wells will be crimped relative to prior years. And much of the industry is now exclusively dependent on cash flow, because debt is reigned in and the public markets are in a foul mood to finance with equity. Appropriately, we can say that the well for new capital is dry. So, in the near term the industry must live within the means of its flagging income statement. After the Financial Crisis, capital expenditures by Canada’s oil and gas industry fell from $54.4-billion in 2008, to $33.6-billion to 2009. That 40 per cent cut was momentarily disastrous. By comparison a 15 per cent drop in 2012, to an estimated $47-billion, is a mild correction. And not quite a billion dollars a week.

#### Low oil prices hits Canada the hardest-lead exporter of oil

**Graves 12-** covers politics for the Huffington Post, Offers syndicated columnists, blogs and news stories (Lucia, “Why High Oil Prices Mean Sending More Money To Canada” 4/25/12, http://www.huffingtonpost.com/2012/04/25/oil-prices-canada\_n\_1451872.html)//CN

WASHINGTON -- For anyone who needed another reason to cure our addiction to foreign oil: high prices at the pump mean fueling one of the greatest transfers of wealth in history, with a full two-thirds of the money spent on crude oil going directly to foreign producers. While some have surmised most of that money ends up in the pockets of Middle Eastern oil tycoons, it's actually countries like Canada that end up taking home much of the petroleum profit. According to estimates from the Energy Information Administration from 2011, Mexico, Canada, Saudi Arabia, Venezuela and Nigeria account for 69 percent of all U.S. crude oil imports. Canada leads the list, exporting 2,829 thousand barrels of crude to the U.S. each day. Those numbers matter because the retail price of gasoline is largely a function of the cost of crude oil. Refining, transportation and taxes factor in too, but according to Geoffrey Heal, a professor of social enterprise at Columbia Business School, since those variables are more or less fixed, upticks in price go to benefit the producers of crude almost exclusively. "The refining and transportation costs really haven’t changed much over the last few years," Heal said. "So basically what moved the gasoline price is the movements in the price of crude oil." The U.S. produced 5.9 million barrels of crude oil a day back in December, while consuming more than 18.5 million barrels of petroleum products, according to a recent Energy Department estimate. These numbers include oil used to power vehicles as well as heat homes. That means about 12.6 million barrels of crude came from foreign sources. Assuming a price of roughly $118 per barrel, that's over $1 billion draining out of the U.S. each day. The single biggest source of U.S. crude is still the U.S. itself, Heal notes, but given the country's current financial straights, one can certainly understand why Americans worry about sending so much of the extra money they pay at the pump overseas -- or even just north and south of the border.

## Impact – K2 Econ

#### Canadian growth is key to the world economy

Vieira 10, Financial Times columnist, (6-20, Paul, “Cabinet ministers set out on global tour to boast about Canada’s economic record,” [http://www.vancouversun.com/business/Cabinet+ministers+global+tour+boast+about+Canada+economic+record/3179696/story.html](http://www.vancouversun.com/business/Cabinet%2Bministers%2Bglobal%2Btour%2Bboast%2Babout%2BCanada%2Beconomic%2Brecord/3179696/story.html))

With Canada just days away from hosting the G20 and G8 leaders’ summits, a team of federal cabinet ministers, led by Finance Minister Jim Flaherty, hits the road Monday for an international tour to boast about the nation’s record during the financial crisis and how other economies should look to Canada for leadership in the post-crisis era. Flaherty is set to speak to Wall Street, the global capital of finance, and outline Canada’s priorities for the G20 and G8 meetings in Toronto and Huntsville, Ont., this weekend. Sources indicate he will reinforce the need for governments to get their fiscal houses in order — much like Canada did in the mid-1990s — in order to assure the global recovery has legs. The government plans to highlight once again the benefits of Canada’s financial system, and how the prudence displayed by lenders and the vigour demonstrated by Canada’s banking regulator have served this country well. In the lead-up to the G20, Canada has pushed not only the need for an overhaul of banking regulations — that will require banks to hold more capital on their balance sheets and limit risky lending — but also better supervision of lending practices. Flaherty is set to address a blue-chip crowd in Manhattan Monday morning, while Natural Resources Minister Christian Paradis is in Beijing and Immigration Minister Jason Kenney is scheduled to be in London. The ministers will address the release of a report that highlights how Canada’s economy has outperformed its industrialized peers during the crisis, and how Canada is one of the few countries that has already spelled out a plan to return to a budget surplus by mid-decade. “Our fiscal situation is the envy of countries facing crippling deficits,” said a person with knowledge of what the cabinet ministers will talk about, who spoke on condition of anonymity. The International Monetary Fund projects the country’s debt-to-GDP ratio will stand at 31 per cent in 2015, compared to 85.5 per cent for the United States and less than one-third of the G7 average of nearly 95 per cent. The report is expected to include an update on Canada’s economic outlook, and that to date the Canadian economy has surpassed expectations, exemplified by first-quarter annualized growth of 6.1 per cent. Both the IMF and the Organization for Economic Co-operation and Development have forecast that Canada will lead growth among industrialized countries. In fact, the economy has been so hot that the Bank of Canada was the first central bank among the G7 to begin raising its key interest rate, in an effort to “normalize” rates and begin cooling down the economy before inflation strikes.

# Iran – NEG

## Internal Links

### Oil K2 Econ

#### Iran economy depends on high oil

Carter 12 [Chelsea J Carter Associated Press reporter at The Associated Press, Baghdad, Iraq Military Affairs Writer at The Associated Press/20/12 <http://articles.cnn.com/2012-05-20/middleeast/world_meast_iran-nuclear_1_nuclear-program-oil-prices-nuclear-weapons?_s=PM:MIDDLEEAST>]

Iran's finance minister believes oil prices could rise as high as $160 a barrel thanks to sanctions over its nuclear program, a prediction that comes just as the chief of the United Nations nuclear watchdog agency headed to Tehran on Sunday for high-level talks. "We must pay close attention when we speak of oil revenues and sanctions against oil sales, who are the winners and the losers of such sanctions?" Shamseddin Hosseini told CNN's "Fareed Zakaria GPS" in an interview that airs Sunday"Indeed, it is difficult. But not just for Iran. And we can all rest assured that there will be a considerable increase in international oil market prices. Now, is this the best approach?" The comments came as the International Atomic Energy Agency said in a carefully worded statement that its director-general, Yukiya Amano, was headed to Iran for talks on what it described only as "issues of mutual interest with high Iranian officials." The trip raises speculation that Iran may be willing to grant IAEA inspectors access to sites to determine whether it is developing nuclear weapons. The talks come at a critical time for Iran, whose economy has been crippled by sanctions imposed by the United Nations, the United States and the European Union. Eighty percent of Iran's foreign revenues are derived from oil exports, and an embargo by the EU set to go into effect in July will further devastate its economy. But Hosseini said the embargo would also likely hurt the EU, which is grappling with its own weakened economy. Oil prices as a result of the sanctions, he said, "will go considerably higher than $100 per barrel." Even the International Monetary Fund "says as a result of these sanctions, oil prices will perhaps reach and hover around $160 per barrel," he said.

#### Iran needs continued high oil prices

Reuters 12 [Reuters (pronounced /ˈrɔɪtərz/) is an international news agency headquartered in London, United Kingdom 6/11/12 <http://in.reuters.com/article/2012/06/11/iran-oil-revenues-idINL5E8H78K120120611>]

1/20/11 <http://english.alarabiya.net/articles/2011/01/20/134325.html>

Oil's ascent towards $100 a barrel, which OPEC blames on western financial speculators, has handed Iran a windfall to help contain domestic discontent and take the sting out of sanctions designed to squeeze its economy. Tehran's financial room for maneuver is likely to expand, while oil prices are expected to stay firm [O/POLL] following a rally that earlier this month took it to its highest level since October 2008. "A particular challenge for the United States is that rising oil prices undermine policy on Iran," said Simon Henderson, of the Gulf and Energy Policy Program at the Washington Institute think-tank. Washington has led the drive to isolate Iran and bring it to the negotiating table over its nuclear program and says the sanctions are working. Along with the other four permanent members of the United Security Council and Germany, the United States and Iran are due to meet in Istanbul on Saturday and Sunday for talks it hopes will lead to an end to the nuclear stand-off. Henderson cited U.S. Department of Energy figures, however, that put Iran's January-November 2010 revenues at $64 billion, $11 billion higher than for the whole of 2009. A populous nation with high social costs, Iran needs a stronger oil price than its wealthier Gulf neighbors to avoid racking up a deficit. Sanction creating economic troubles, prices needed

Dudak 12 [Mathew Dudak an analyst on politics, with a focus of European politics, and technology 2/9/12 <http://rantaweek.com/the-increasingly-confusing-situation-in-iran-part-2-feb-9-2012/>]

We are back for Part 2 of delving into the relationship between the US and Iran. If you have not already, please read the first post. After the row with the drone, Iran started a line of flaunting it’s power. The first was that they vowed to stop the flow of oil through the important Straight of Hormuz should any foreign nations impose sanctions on it’s oil exports. This claim got one simple response from the US, a hard “no”. Soon after, Iran flaunted a medium range missile test that was successful. And this missile was pointed pretty much one place: Israel. So with Iran trying to control the Straight and this threat to Israel, already high tensions between the US and Iran grew higher, as Iran flaunted their power in the region. Soon after this flaunt of power though, a sanction on Iran’s oil exports did not appear, but rather a full oil embargo on Iran by the European Union emerged in early January. This plan was not finalised at this time, but after several rounds of negotiations, the final plan emerged in late January. It declared that no new oil contracts are to be created and all existing deals would be allowed until July. This was a huge blow to the Iranian economy as it depends so heavily on oil. Moreover, the EU imports over 20% of Iran’s oil. This is such a sizeable portion that it has the greatest potential to damage Iran’s economy of any sanction or embargo applied up to this point. In addition to this, it is a very risky move by the EU as it could send prices rocketing when everything else in the economy is shaky and unstable. Fears were especially strong with regards to Greece. With such an economy, anything worse would hurt Greece. Greece is one of the largest Iranian oil importers in the EU and skyrocketing oil prices could be detrimental. However, the fact that the EU went foward with it regardless of economic worries demonstrates how insistent the EU was and how much most of the western world is trying to stop Iran’s nuclear programme.

#### Iran needs $117 to no collapse due to sanctions

Reuters 12 [Reuters (pronounced /ˈrɔɪtərz/) is an international news agency headquartered in London, United Kingdom 6/11/12 <http://in.reuters.com/article/2012/06/11/iran-oil-revenues-idINL5E8H78K120120611>]

LONDON, June 11 (Reuters) - Iran's state finances have come under unprecedented pressure and the resilience of ordinary people is being tested by soaring inflation as oil income plummets due to tightening Western sanctions and sharply falling oil prices. Tough financial measures imposed by Washington and Brussels have made it ever more difficult to pay for and ship oil from Iran. Its oil output has sunk to the lowest in 20 years, cutting revenue that is vital to fund a sprawling state apparatus. Already down by more than a quarter, or about 600,000 barrels per day, from rates of 2.2 million bpd last year, shipments of crude oil from Iran are expected to drop further when a European Union oil embargo takes effect on July 1. Tehran is already estimated to have lost more than $10 billion in oil revenues this year. Causing even more pain, oil prices fell below $100 a barrel last week to a 16-month low amid a darkening outlook for economies in Europe, the United States and China. "This is an act of economic warfare. The sanctions are having a big effect in cumulative terms: Iran is being locked out of the global financial system," said Mehdi Varzi, a former official at the National Iranian Oil Co. "It does appear that Iran is more amenable to negotiations now than it was a year ago. The West should take advantage of this momentary situation to offer more meaningful concessions - a road map to where this will all end," said Varzi, now running an energy consultancy in Britain, Varzi Energy. Diplomats and analysts say Iran may offer the IAEA, the U.N. nuclear watchdog, increased cooperation as a bargaining chip in its negotiations with world powers, which resumed in April after a 15-month hiatus and are to continue in Moscow on June 18-19. Basic mathematics dictate that the lower Iran's oil exports, the higher the oil price it will need to stay in the black. According to the International Monetary Fund, Iran needs oil at $117 a barrel to balance its budget, set at $462 billion. President Mahmoud Ahmadinejad has said the budget was designed to decrease Iran's dependence on oil revenues.

#### Iran needs high oil prices

THEODOULOU 8 [Michael THEODOULOU is a foreign correspondant for the national October 20 2008 <http://www.thenational.ae/news/world/middle-east/iran-in-troubled-waters-as-oil-plunges>]

Alarm over plummeting oil prices has stifled gloating by Iranian leaders that the global financial meltdown is humbling the "arrogant, greedy and power-intoxicated" United States and its western "lackeys". Tehran's attention now is instead focused on persuading Opec to cut production and boost prices at the cartel's emergency meeting on Friday. The Islamic republic has particular cause for concern. Its budget is heavily reliant on income from oil exports while its economy is more vulnerable than most producers because of international sanctions that have snared its access to financial markets. A further decline in energy prices could have far-reaching diplomatic, political and social ramifications for Iran. High prices had bolstered its drive to project itself as a regional superpower while blunting the effectiveness of UN sanctions that were imposed to rein in Tehran's nuclear programme. Washington now will hope that lower oil prices will increase western leverage on Iran and weaken its swaggering, hardline president, Mahmoud Ahmadinejad, as he prepares to fight a bruising battle for re-election next June. Oil prices have halved from their peak of US$147 (Dh540) a barrel in July to a level where many economists believe Iran's government will need to shrink its bloated budget to balance its books. The International Monetary Fund was expected yesterday to publish a new regional economic forecast estimating that Iran needs average oil prices above $90 a barrel to avoid a budget deficit and to remain above $75 a barrel to cover its import bill. Deutsche Bank also recently estimated that Iran and its fellow anti-US ally, Venezuela, need an oil price of more than $95 a barrel to break even compared with $55 for Saudi Arabia. The IMF said the Saudi budget remains in balance unless oil falls below $50 a barrel; its "break-even" figure for the UAE is a mere $23 a barrel and $33 for Kuwait. Members of the Gulf Co-operation Council, which groups the UAE, Saudi Arabia, Qatar, Bahrain, Oman and Kuwait, are "better able to weather lower oil prices than Iran because their coffers are full and they have better access to funding," said Melanie Lovatt, the finance editor of Middle East Economic Survey, an authoritative Cyprus-based newsletter. "Years of heavy and mostly wise investment have also put the GCC in a much better position than Iran … which will need dramatic political change to allow it to tap funds internationally," she said. This is grim news for Mr Ahmadinejad. The economy was his Achilles heel even before oil prices tumbled. Posturing as a champion of the working class, the son of a humble blacksmith won a surprise landslide election three years ago on populist pledges to put the country's "oil income on people's tables". But the social gap has widened under his wayward stewardship of Iran's economy - a discipline in which he prides himself of knowing little. His hero, the late Ayatollah Khomeini, famously told an adviser that the Islamic Revolution that he led, was "not about the price of watermelons". Profligate spending of petrodollars from earlier record oil revenues has stoked inflation in Iran, which topped 29 per cent last month, compared with 12 per cent when Mr Ahmadinejad took power. With oil prices now falling, he is likely to blame Iran's economic problems on external forces rather than his own mismanagement, which has come under growing fire from conservative rivals as well as reformists and the country's media. "But as his domestic critics point out, the last two years of high oil prices should have given the government of Iran ample opportunity to save for rainy days," said Farideh Farhi, an Iran analyst at the University of Hawaii. "Instead, Ahmadinejad's repeated budget supplements led to the constant raiding of Iranian reserves. So today there are real worries that a drop to even $80 or $90 a barrel would spell trouble for Iran." The IMF urged Iran in August to tighten its economic policies to reduce inflation. Iranian technocrats have offered similar advice, but were shunted brusquely aside. Mr Ahmadinejad recently sacked his central bank governor because he had challenged him on bank lending rates, which the president has kept well below the rate of inflation. But he has been unable to withstand pressure from other quarters. Bazaar merchants, a potent force in the middle class, went on strike this month, humiliating Mr Ahmadinejad into scrapping plans to impose a value added tax of three per cent. Significantly, Iran's bazaaris had last gone on strike in the run-up to the 1979 Islamic Revolution, when they played an influential role toppling the US-backed shah. Iranian reformers have urged the headstrong president to prepare for lower oil revenues by slashing subsidies on such commodities as sugar, cooking oil and wheat. He is deeply reluctant to do so. An outpouring of popular anger followed his imposition of petrol rationing last year to cut debilitating expenditure on imported fuel. Despite being one of the world's biggest producers of crude oil, Iran relies on one-third of its petrol from abroad because it lacks refining capacity. Iranian motorists still can fill their tanks for an enviable $0.099 a litre, provided they keep within the heavily subsidised rationing quota. Thereafter, petrol quadruples in price. Some Iranian commentators had predicted Mr Ahmadinejad would shelve the unpopular petrol-rationing quota to seduce voters before next summer's elections. That now looks increasingly unlikely because reduced oil export earnings and sanctions-hit foreign investment have scuppered Iran's hopes of investing $20 billion to boost domestic refining capacity. Ayatollah Ali Khamenei, Iran's supreme leader, trumpeted last week that western capitalism was collapsing just as Marxism did in eastern Europe two decades ago. Iranian technocrats, though, are deeply concerned that the "Great Satan's" globalised capitalist "empire" - however humbled - is about to hit back.

#### High oil prices save Iran from sanction

UPI 12 [United Press International (UPI) is a once-major international news agency, whose newswires, photo, news film and audio services 4/19/12 <http://www.upi.com/Business_News/Energy-Resources/2012/04/19/High-oil-prices-help-Iran-fight-sanctions/UPI-92911334861041/>]

High oil prices are shielding Iran from the full weight of U.S. and EU economic sanctions aimed at choking Tehran's oil exports and forcing it to abandon its nuclear program. It's a Catch-22 situation. Oil prices are climbing amid fears global supply will be seriously disrupted, even critically disrupted, by cutting Iran's exports and concerns Iran will seek to close the strategic Strait of Hormuz, a vital oil artery and the only way in and out of the Persian Gulf. There's no doubt the sanctions are increasingly biting and they'll get tougher July 1, when a total oil embargo by the 27-member European Union is to take effect. But the Iranians are resorting to secret oil sales and have ordered their state-owned fleet of 39 supertankers to switch off transponders that allow the shipping industry to track them. That suggests Tehran's clandestine network is operating at full tilt with benchmark Brent crude pegged at $118 a barrel. That's still a ways off the record $147 per barrel notched in July 2008 but prices could well go up again, particularly if Iran's exports fall and no progress is made on the thorny nuclear issue at a meeting between Iran and its adversaries next month. The Financial Times reports that higher oil prices are "insulating Iran from the full impact of the … sanctions on the sale of its crude, providing Tehran with breathing space as it prepares for a new round of nuclear talks with Western nations." How long that will be the case remains to be seen as the sanctions squeeze tightens. Meantime, the Center for Global Energy Studies, a London think tank, estimates that Tehran will earn $56 billion from exporting its crude in 2012, the Islamic Republic's third highest earnings ever, "even after factoring in the loss of roughly one-third of its export volume due to sanctions." That's "more than Iran earned in any year before 2007," the Financial Times noted.

#### High oil Prices ensure Iranian stability, don’t allow for energy developement

Habibi 8 [Henry J. Leir pen name Nader Habibi is a Professor of the Economics of the Middle East, in the Crown Center, and Senior Lecturer in the Department of Economics2008 <http://www.brandeis.edu/crown/publications/meb/MEB31.pdf>]

If in spite of economic mismanagement and worsening economic sanctions the Iranian economy has managed to grow by an average of 5.8% per year in the past three years, the reason is the high oil revenues that have enabled the government to finance its fiscal expansion. The latest data from the Iran Central Bank show that Iran’s oil export revenues have increased from $36 billion in the 2004–5 fiscal year (ending in March) to $81 billion in the 2007–8 fiscal year. Overall, Iran has earned a total of $197 billion from oil sales from April 2005 to March 2008. One visible negative consequence of Iran’s larger than expected oil revenues is the sharp increase in the inflation rate, which has angered large segments of the Iranian population in recent months. At the same time, abundant oil revenues have helped the government shield the population from some of the adverse consequences of the sanctions. There is no doubt that sanctions have kept foreign investment in the country’s manufacturing and energy sectors far below its potential. Oil revenues, however, have enabled the Iranian government to partially offset the shortfall in foreign investment by increasing domestic investment. The government, in addition to increasing investment by public enterprises, has used a portion of the country’s oil revenues to provide investment loans to domestic private investors. Abundant oil revenues have also made it possible for Iran to sharply increase imports of basic necessities and consumer goods in the past three years. Thus, while the sanctions have slowed down the development of Iran’s manufacturing and energy sectors, which are crucial for the long-term growth of the Iranian economy, oil revenues have allowed the government to shield households and consumers from the effects of stagnation in these sectors. For example, gasoline imports have made up for the shortage in domestic refining capacity, which is partly due to the sanctions. Oil revenues have also enabled the ruling regime to offer economic rewards to its political support base. President Ahmadinejad has used oil revenues to finance development projects in underdeveloped regions of the country. These expenditures have proven highly popular at the local level and have strengthened the Islamic regime’s political base in these and prevent financial panic. Iranians are highly sensitive to the stability of the exchange rate because it has a direct impact on price of imports and areas. Oil revenues have been used by the government to support the exchange rate people’s confidence in the economy. Any fears regarding the foreign reserves of the country’s central bank could easily spark a currency run and encourage people to hoard foreign currency. Had it not been for the large currency reserves accumulated in recent years thanks to oil revenues, the economic and financial sanctions imposed on Iran could easily have led to currency runs and financial panic. Yet the currency has been stable, and most of the excess liquidity has been directed to real estate speculation instead of hording foreign currencies.

## Iran Econ Impacts

### Regime Collapse

#### Economic troubles dismantle current regime

Boms 12 [Nir Boms is a co-founder of CyberDissidensts.org. Nir co-wrote this piece with Shayan Arya, an Iranian activist and a member of the Constitutionalist Party of Iran 2012 <http://www.policymic.com/debates/4221>]

In an effort to reverse the decline, Mahmoud Bahmani, the head of Iran’s Central Bank, announced that there is no shortage of foreign currency and injected more than 200 million dollars into Tehran’s market at a discounted rate. While his move failed to bolster the falling Rial, it did stop rising inflation. Official accounts place the country’s inflation at 21%, but more realistic figures point to an increase of over 50% in the price of many basic products. Failing to stabilize the Rial, the government announced plans to restrict currency trade. The regime even started to threaten small currency dealers and sent police and security forces to arrest them. But to no avail. Assadollah Asgharoladi, one of the most prominent businessmen in Iran and the head of the Iran-China Chamber of Commerce, said that with an exchange rate of 16,000 Rial to the Dollar, the country will soon witness a significant wave of domestic bankruptcies. Manufactures and business owners who have to pay off debts in foreign currencies will not stand a chance. Since his remarks two weeks ago, the dollar has reached new heights and the Rial has fallen another 35 percent. Many fear that it will decline even more. Iran’s Central Bank and the Ahmadinejad government are running out of ways to deal with the crisis. Faced with the harsh reality of macroeconomic, President Ahmadinejad agreed to raise interest rates. At the same time, the Central Bank announced that it will unify the exchange rates at 12,600 Rials per dollar, a 10% official devaluation. But, as Iranian economist Dr. Djavad Salehi-Isfahani predicts, these changes will not be enough to prevent the currency’s downward spiral and a sharp decrease in the country’s standard of living. The rampant stagflation that has gripped Iran’s economy is nothing new. But the combination of new sanctions together with the elimination of government subsidies (which, until last year covered a range of basic products) is a very different ball game. Thirty million people, 37 percent of Iran’s population, are officially classified as poor. Many more poor are unreported. Anger and frustration are rising as fast as Iran’s currency is falling. This poses a real threat to the Iranian regime, particularly following a year of regional revolutions that were triggered by similar economic realities. If the trend continues, soon the Supreme Leader may witness a different kind of Jihad than the one he advocated for on the Persian new year, a Jihad targeted against his own regime. An economic uprising against the destructive Iranian regime should be welcomed with open arms. And this time, some more help would be appreciated as well.

**Iranian instability causes nuclear war**

**Eisenstadt 2004** – (Michael Eisenstadt, Senior Fellow at The Washington Institute, 9-16-2004, “The Iaea And Iran: The Perils Of Inaction Washington Institute For Near East Policy, http://www.iranwatch.org/privateviews/WINEP/perspex-winep-eisenstadt-nucleariran-091604.htm)

Implications of Instability in Iran? Instability and unrest in a nuclear Iran could have dire consequences. Were antiregime violence to escalate to the point that it threatened the survival of the Islamic Republic (unlikely in the near term, but a possibility in the future should popular demands for political change continue to be ignored by conservative hardliners), diehard supporters of the old order might lash out at perceived external enemies of the doomed regime with all means at their disposal, including nuclear weapons. The apocalyptic possibility of nuclear terrorism by an Islamic Republic in its death throes, though unlikely in the near term, cannot be dismissed as a source of concern.

### Iran-US War

#### Weakened economies from full sanctions produce Iran U.S conflict

Cole 12 [John Ricardo I. "Juan" Cole is an American scholar, public intellectual, and historian of the modern Middle East and South Asia. He is Richard P. Mitchell Collegiate Professor of History at the University of Michigan 4/12/12 <http://truth-out.org/news/item/8494-why-washingtons-iran-policy-could-lead-to-global-disaster-what-history-should-teach-us-about-blockading-iran>]]

The great oil blockade of 2012 may still be largely financially focused, but it carries with it the same dangers of escalation and intervention -- as well as future bitterness and blowback -- as did the campaign of the early 1950s. U.S. and European financial sanctions are already beginning to interfere with the import of staples like wheat, since Iran can no longer use the international banking system to pay for them. If children suffer or even experience increased mortality because of the sanctions, that development could provoke future attacks on the U.S. or American troops in the Greater Middle East. (Don’t forget that the Iraqi sanctions, considered responsible for the deaths of some 500,000 children, were cited by al-Qaeda in its “declaration of war” on the U.S.) The attempt to flood the market and use financial sanctions to enforce an embargo on Iranian petroleum holds many dangers. If it fails, soaring oil prices could set back fragile economies in the West still recovering from the mortgage and banking scandals of 2008. If it overshoots, there could be turmoil in the oil-producing states from a sudden fall in revenues. Even if the embargo is a relative success in keeping Iranian oil in the ground, the long-term damage to that country’s fields and pipelines (which might be ruined if they lie fallow long enough) could harm the world economy in the future. The likelihood that an oil embargo can change Iranian government policy or induce regime change is low, given our experience with economic sanctions in Iraq, Cuba, and elsewhere. Moreover, there is no reason to think that the Islamic Republic will take its downward mobility lying down. As the sanctions morph into a virtual blockade, they raise the specter that all blockades do -- of provoking a violent response. Just as dangerous is the specter that the sanctions will drag on without producing tangible results, impelling covert or overt American action against Tehran to save face. And that, friends, is where we came in.

#### Just a small U.S Iran conflict begins WW3 and goes nuclear

Giraldi 12 [Philip Giraldi is a former counter-terrorism specialist and military intelligence officer of the United States Central Intelligence Agency and a columnist a 1/11/12 <http://original.antiwar.com/giraldi/2012/01/11/what-war-with-iran-might-look-like/>]

Back in September 2007 I wrote an article for Antiwar.com called “What World War III May Look Like.” The article, which presumed that an incident involving U.S. troops on the border between Iraq and Iran could easily escalate into what would eventually become a global conflict, was widely replayed in the alternative media and even in the mainstream. Well, I am pleased to report that no such war has yet started, though there has been a disturbing expansion of U.S. military activity through the deployment of drones to hit targets in assorted countries without having to worry about American casualties or niceties like declarations of war. Other geopolitical elements that figured in my 2007 analysis have also changed, so I believe that the time has come for an update. Iran is clearly the target of choice, just as it was in 2007. Despite President Barack Obama’s assertion that he would open up avenues to talk to the Iranians, he has failed to do so, he has rejected Iranian initiatives to start a dialogue, and he is showing every sign of unwillingness to negotiate on any level. Congress has even moved to block any contact between American and Iranian diplomats. The sanctions that recently took effect against the Iranian banking system can be construed as an act of war, particularly as Iran has not provided any casus belli. Further sanctions that will restrict energy imports are impending and will bring the country’s economy to a halt. There are already signs that the Iranian government feels itself compelled to demonstrate to its people that it is doing something about the situation. That “something” might well be a confrontation with the U.S. Navy that will have unfortunate results. In light of all that, it might be useful to imagine just how war with Iran could play out if the Iranians don’t roll over and surrender at the first whiff of grapeshot. It might start with a minor incident, possibly involving an Iranian armed small craft manned by the Revolutionary Guard. Though the Strait of Hormuz is generally considered an international waterway, the Iranians claim that half of the strait is within their territorial waters. Tehran, in response to intensified sanctions, declares that it can determine who can use the strait and says that it will take steps to keep American warships from entering. The frigate USS Ingraham, patrolling off of Bushehr, is confronted by the small craft and ordered to heave to, an order it rejects. The Iranian commander, ignoring instructions to back off when confronted directly by the U.S. Navy, opens fire with rocket-propelled grenades. The frigate’s Phalanx rapid-fire battery immediately responds by blasting the Iranian boat, killing the entire Revolutionary Guard crew, but two American sailors are also killed in the exchange and four are wounded. Fighters from the aircraft carrier USS John C. Stennis are immediately launched under standing orders, and they devastate the naval base that the Iranian boat departed from. President Obama holds a press conference and calls the incident an act of war and vows to do everything necessary to support U.S. forces in the region, but he stops short of a commitment to stage a full-scale attack on Iran. A hastily called meeting of the U.N. Security Council results in a 17–1 vote urging the United States to exercise restraint, with only Washington voting “no.” In the General Assembly, only the United States, Israel, Micronesia, and Costa Rica support possible military action. The United States is effectively alone, but Israel takes advantage of the growing war fervor in the United States to launch an attack against Iranian nuclear facilities. The recently completed nuclear reactor at Bushehr is destroyed, killing 13 Russian technicians working on the site, and the aboveground buildings at the Natanz nuclear research facility are leveled. Russian-supplied Iranian air defenses shoot down six Israeli aircraft. Washington receives no prior warning of the Israeli attack, though it does pick up the signal traffic that precedes it and knows something is coming. It makes no effort to stop the Israelis as they fly over undefended Iraqi airspace. Congress and the media rally behind the Israelis and demand war. A bill in the House of Representatives calling on the White House to take military action in support of Israel passes 431–4. A similar bill in the Senate receives only two nays. President Obama hesitates but then approves a limited offensive, directed against Iran’s military, its nuclear sites, and, most particularly, its Revolutionary Guard installations. In the first few days, overwhelming American air and naval superiority destroys Iran’s principal air, naval, and army bases. Iranian Revolutionary Guard facilities are obliterated, as are the known Iranian nuclear research and development sites. The limited offensive soon becomes anything but that, with strategic bombers dropping 30,000-pound Big BLU bunker-buster bombs to strike underground labs and processing centers. Population centers are avoided, though smart weapons are used to destroy communications centers and command and control facilities. There are nevertheless large numbers of civilian casualties as many of the targeted nuclear sites are close to or within cities and large towns. Infrastructure is also hit, particularly bridges, roads, and power-generation stations close to known nuclear research centers and military sites. There is a pause in the attacks, and Iran strikes back. With nearly 10 years to prepare, Tehran has successfully hidden and hardened many of its military and nuclear facilities, a large percentage of which are undamaged. The aircraft carrier USS John C. Stennis operating in the Gulf of Oman is hit by a lucky strike by a Chinese Silkworm cruise missile that comes in low and successfully evades countermeasures. The Stennis retires to port in Bahrain. Three other support vessels are also hit and severely damaged when they are attacked by waves of small craft manned by suicidal Revolutionary Guards, not unlike the kamikaze attacks in the Second World War. The Iranian attackers are annihilated, but the Pentagon refuses to say how many American sailors have been killed in the exchange. Pro-Iranian riots break out in Beirut. In the south of Lebanon, Hezbollah fires salvos of rockets into Israel, striking Tel Aviv and killing several hundred Israelis. Israel responds by bombing Lebanon and Syria, which it blames for supporting the attacks. Upgraded Iranian Shahab-3 missiles also strike Israel, killing more civilians. The Israeli Defense Forces are fully mobilized, and troops are sent to the northern border. Syria and Lebanon also mobilize their forces. Rioters in Baghdad attack the American embassy, which demands that the Iraqi government “do something” to protect it, but Prime Minister Nouri al-Maliki shrugs and says that the situation is out of his control. Large public demonstrations demand that Iraq support Iran in a fraternal struggle against the United States. Shi’ites sympathetic to Iran sabotage Saudi Arabian eastern oil fields. Hundreds of alleged saboteurs are shot dead by Saudi security forces. An oil tanker out of Kuwait is hit by a Silkworm and runs aground to keep from sinking. Another hits a mine. Insurers at Lloyd’s of London refuse to cover any tankers transiting the Persian Gulf, claiming that damage incurred during a state of war is not covered by the policies. Oil shipments from the region, one quarter of the world’s supply, stop completely, and oil goes up to $300 a barrel. Wall Street suffers its biggest loss in 20 years, with the Dow Jones index plummeting more than 900 points. The United States offers Iran a cease-fire, which Tehran rejects. Two days later, President Hamid Karzai of Afghanistan is assassinated by a Shi’ite bodyguard under orders from Tehran. Pakistan declares that it is neutral in the conflict and orders the U.S. embassy to reduce its staff by 50%, including the CIA station chief and his deputy. Order breaks down in both countries, and the Pakistani army declares a state of emergency, closing the border with Afghanistan. NATO calls an emergency meeting and decides to begin the evacuation by air of the multinational force trapped in Afghanistan, leaving many weapons and heavy equipment behind. In the power vacuum, NATO troops withdraw to their bases while Taliban-backed militias take over much of Kabul and Kandahar. Afghanistan’s Mazar-i-Sharif, which is largely Shi’ite, declares itself a part of Iran. The government resigns in Beirut, and Hezbollah forms a new one. A salvo of Iranian Silkworm missiles sets the Saudi Arabian eastern oil fields ablaze. Saudi Arabia and the United Arab Emirates send an urgent diplomatic message to Tehran declaring that they will be “neutral” in the fighting and will not assist the United States in any way. Kuwait sends the same message, while Egyptian volunteers gather along the border with Israel in Sinai, demanding that Cairo take steps in support of their Arab brothers in Lebanon. Kuwait refuses to allow the United States to use its men and supplies at Camp Doha against Iran. In Bahrain, rampaging Shi’ite crowds depose Sheikh Khalifa al-Khalifa and set up an Islamic Republic, forcing the U.S. Fifth Fleet to abandon its only secure base in the region. The Dow Jones index loses another 1,000 points. The United States attempts to get China and Russia to mediate with Iran to end the fighting, but they refuse to do Washington any favors, noting that they had opposed the attack in the first place and also citing their countrymen killed in the U.S. attacks. Suicide bombers attack in London, Washington, New York, and Los Angeles. The attacks are poorly planned and inflict only a few casualties, but panic sets in and the public demands that the respective governments do something. The United States tells the Iranian government that unless resistance ceases, nuclear weapons will be used on select targets. India and Pakistan are alarmed by the U.S. threat and put their own nuclear forces on high alert, as does Israel. Russia and China also increase their readiness levels to respond to the crisis. Iran refuses to concede defeat, and the Iranian people rally around the government. The U.S. public is clamoring for action. Oil prices continue to surge, and the long-term viability of petroleum supplies is in question as the Strait of Hormuz continues to be closed. Another U.S. ship is badly damaged by suicide attackers in the Persian Gulf. American embassies throughout the region are attacked. Anti-American rioting takes place in Jakarta, Kuala Lumpur, Mindanao, and in Dhaka. The United States consulate general in Karachi, Pakistan, is sacked and burned. Forty Americans die along with scores of Pakistanis when the Marine guards open fire. There are frequent terrorism scares in a number of American cities, which are under red-alert security lockdown, though there are no new attacks. Domestic air travel declines by more than 50%. As a preventive measure, there are mass arrests of American Muslim leaders. Some antiwar activists are detained at military prisons, including Guantanamo, under the provisions of the Military Commissions Act and the National Defense Authorization Act of 2012. Israel continues to be bombarded from inside Lebanon. Its air attacks inflict massive damage on civilians but are unsuccessful in stopping the rockets. Its government falls and is replaced by a hard-right regime headed by former Foreign Secretary Avigdor Lieberman. Rioting rocks the West Bank and Gaza, forcing Palestinian President Mahmoud Abbas to resign and flee to Paris. Hamas forms a provisional government. India threatens to attack Pakistan if there is any question about the security of Islamabad’s nuclear arsenal. The United States uses a neutron-type bomb against the main Iranian nuclear research center at Natanz, which both Washington and Israel had already bombed conventionally and destroyed. It vows to bomb again if Iran continues to resist. Iran is defiant and fires another wave of Silkworms at U.S. ships, hitting one. Russia and China place their nuclear forces on high alert. Pakistani militants assume control of the government, aided by radical elements in the army and the intelligence service. India launches a preemptive strike against the main Pakistani nuclear centers at Wah and Multan, where the country’s arsenal is believed to be concentrated. Pakistan has some of its nukes moving around on trucks to avoid such a scenario, however, and is able to strike back by bombing New Delhi. A minor engagement between American and Iranian forces in the Persian Gulf has ignited World War III.

### XT War Escalates

#### Russia and China will back Iran in conflicts, multiple warrants

Infowars 12 [Infowars is a conservative news site 1/25/12 <http://www.infowars.com/strategic-importance-of-iran-for-russia-and-china-eurasian-%E2%80%9Ctriple-alliance%E2%80%9D/>]

Moscow and Tehran’s bilateral ties are also part of a broader and overlapping alliance involving Armenia, Tajikistan, Belarus, Syria, and Venezuela. Yet, above all things, both republics are also two of Washington’s main geo-strategic targets. The Eurasian Triple Alliance: The Strategic Importance of Iran for Russia and China China, the Russian Federation, and Iran are widely considered to be allies and partners. Together the Russian Federation, the People’s Republic of China, and the Islamic Republic of Iran form a strategic barrier directed against U.S. expansionism. The three countries form a “triple alliance,” which constitutes the core of a Eurasian coalition directed against U.S. encroachment into Eurasia and its quest for global hegemony. While China confronts U.S. encroachment in East Asia and the Pacific, Iran and Russia respectively confront the U.S. led coalition in Southwest Asia and Eastern Europe. All three countries are threatened in Central Asia and are wary of the U.S. and NATO military presence in Afghanistan. Iran can be characterized as a geo-strategic pivot. The geo-political equation in Eurasia very much hinges on the structure of Iran’s political alliances. Were Iran to become an ally of the United States, this would seriously hamper or even destabilize Russia and China. This also pertains to Iran’s ethno-cultural, linguistic, economic, religious, and geo-political links to the Caucasus and Central Asia. Moreover, were the structure of political alliances to shift in favor of the U.S., Iran could also become the greatest conduit for U.S. influence and expansion in the Caucasus and Central Asia. This has to do with the fact that Iran is the gateway to Russia’s soft southern underbelly (or “Near Abroad”) in the Caucasus and Central Asia. In such a scenario, Russia as an energy corridor would be weakened as Washington would “unlock” Iran’s potential as a primary energy corridor for the Caspian Sea Basin, implying de facto U.S. geopolitical control over Iranian pipeline routes. In this regard, part of Russia’s success as an energy transit route has been due to U.S. efforts to weaken Iran by preventing energy from transiting through Iranian territory. If Iran were to “change camps” and enter the U.S. sphere of influence, China’s economy and national security would also be held hostage on two counts. Chinese energy security would be threatened directly because Iranian energy reserves would no longer be secure and would be subject to U.S. geo-political interests. Additionally, Central Asia could also re-orient its orbit should Washington open a direct and enforced conduit from the open seas via Iran. Thus, both Russia and China want a strategic alliance with Iran as a means of screening them from the geo-political encroachment of the United States. “Fortress Eurasia” would be left exposed without Iran. This is why neither Russia nor China could ever accept a war against Iran. Should Washington transform Iran into a client then Russia and China would be under threat.

#### Russia and China will support laundry list of warrants

Simpson 10 [George L. Simpson Jr. Department of History and Political Science High Point University University Station, Montlieu Avenue2010 <http://www.meforum.org/2690/russian-chinese-support-for-iran>]

Proponents of an informal alliance from the Russian Federation, China, and Iran present it as a reaction to the unilateralism of the United States and alleged U.S. aspirations for global hegemony. They consider the United States a significant rival and a threat to their long-term security. Consequently, Russia's goal, according to Cohen, is to engage in a "balancing strategy" that will knock the United States down a notch and thus revise the international status quo. While Cohen makes this point for Moscow's policy, it is an equally apt characterization of Beijing's approach as well.[9] The View from Beijing The leaders of China and Iran feel that they are the proud heirs to two great and ancient civilizations that have been humiliated and made victims of Western imperial aggression. They believe that Washington's "hegemonism" represents the unjust continuation of long-standing Western efforts to keep them weak and subordinate.[10] Hence, Sino-Iranian relations are bound by what Asia and Middle East analyst John Calabrese calls a "kinship of nationalisms."[11] Perhaps more importantly, an understanding of economic issues further explains China's lukewarm support for the United States in its disputes with Iran. China, which has one of the world's fastest growing economies and which has designs on becoming an economic superpower, is today the world's second largest consumer of oil. Nearly 60 percent of its oil is imported from the Middle East. Iran, which possesses about 10 percent of the world's proven petroleum reserves, replaced Saudi Arabia as the leading supplier of oil to China in May 2009. Indeed, since reaching an agreement in October 2004, Beijing and Tehran have penned energy deals that purportedly are worth more than US$120 billion.[12] Furthermore, Iran's oil producing facilities and equipment are in serious need of modernization. Beijing's willingness to invest in this vital sector of the Iranian economy (as much as 90 percent of Iran's export income comes from oil) is crucial to the fiscal well-being of the present Islamist regime, which, according to official estimates, faces an 11 percent unemployment rate and inflation exceeding 13 percent.[13] Thus, the China National Petroleum Corporation, China's largest oil producer and supplier, signed a deal in January 2007 worth $3.6 billion to develop Iranian offshore gas fields. As recently as June 2009, the same company put its name to a $2 billion contract for development of the northern section of Iran's Azadegan oil field near Ahvaz.[14] Despite U.S. pressure to keep Iran economically isolated, China has leaped into the void created by U.S. sanctions against the Islamic Republic since its 1979 revolution. In 2003, trade between the People's Republic and Iran reached a record $4 billion, and that figure soared to $16 billion in 2006 and $29 billion in 2008.[15] Crude oil constitutes 80 percent of China's imports from the Islamic Republic with mineral and chemical products making up most of the remainder. Beijing's exports are more diversified, with machinery, electrical appliances, textiles, vehicles, and aircraft comprising the most important commodities in demand from Iran.[16] Before 1997, Beijing had, for more than a decade, been Iran's most important partner in helping the Islamist regime develop its nuclear capability. As China expert John W. Garver writes, China's cooperation with Iran "was extensive, sustained over a fairly long period, and of crucial importance to Iran's nuclear effort."[17] The Chinese have apparently retreated from their policy of direct cooperation with the mullahs on the nuclear front since that time. The View from Moscow One might think that the long history of conflict between Russia and Persia would preclude Iran from seeking Russian aid. As far back as Peter the Great (r.1682-1725), tsars and tsarinas have nibbled at Iranian borders in the Caucasus and the Caspian region. Over time, first the Romanovs, then the communists intervened more and more in Persian affairs, with the latter going so far as to establish short-lived "People's Republics" in Kurdish and Azeri regions of Iran. Despite this, the courtship continues. Russia also has economic reasons to back the Tehran regime. Russia's trade with Iran is more modest than China's but nevertheless significant. Total trade between the two countries equaled $3.2 billion in 2008 with analysts predicting even higher numbers within a few years. As both countries are major energy producers, they share a common interest in establishing pricing policies for oil and natural gas as well as manipulating these markets to their advantage. More significant, however, is Moscow's role in the Islamic Republic's nuclear program. The Russian government has assisted in Iran's construction of the $800 million Bushehr nuclear power plant and has helped the mullahs obtain nuclear knowledge.[18] As a result, Moscow, as well as Beijing, is at odds with Washington over how to deal with Tehran's efforts to gain a nuclear capability. China and Russia, both of which wield veto power on the United Nations Security Council, have consistently obstructed efforts in the U.N. to halt Tehran's drive to obtain nuclear weapons. While it is true that from time to time, both countries have called on Iran's regime (which is a signatory to the Nuclear Non-proliferation Treaty) to cooperate with the International Atomic Energy Agency (IAEA), neither has supported effective sanctions or forceful measures to deal with the problem. Gennady Yevstafyev, a senior adviser at the Center for Policy Studies in Russia, has gone so far as to contend that "Washington closed its eyes to the creation of nuclear weapons by its strategic partner, Pakistan. But now it is threatening a war on its ex-strategic partner Iran for the same crime."[19] Moscow continues to talk out of both sides of its mouth. Sergei Kiryienko, the director-general of Rosatom, Russia's federal atomic energy agency, has stated the official Russian position that "broad access to civilian nuclear power must be guaranteed while at the same time there must be a guarantee that weapons of mass destruction will not proliferate under any circumstances."[20] As recently as October 2007, then-president Vladimir Putin described a nuclear armed Iran to be a "strategic threat" to Russia when he met with leaders of the European Jewish Congress and with French president Nicolas Sarkozy in Moscow. Yet the Russian leader went on to claim that there was no "objective data" proving that Iran was seeking nuclear weapons so that "we proceed from a position that Iran has no such plans."[21] What lies behind the inscrutable strongman's thinking is difficult to say for certain, but one can speculate that Putin's antipathy towards the United States as well as his desire to conciliate cronies within the Russian Federation's military-industrial complex goes a long way to explain this gamble.

## Iran Strike Impact

### 2NC Strikes Impact

#### Low oil prices cut off Iranian income, increase risk of Western military attack

Gjitis 12 [Frida Ghitis is an independent commentator on world affairs and a World Politics Review contributing editor. June 7 2012 <http://www.worldpoliticsreview.com/articles/12035/world-citizen-disabling-irans-oil-weapon>]

The sharp edge of Iran’s oil power has been dulled through painstaking tactical moves by Washington and its allies, but the most significant change came not by design, but by misfortune. Ironically, the fear that a conflict with Iran would cause a spike in petroleum prices and trip the world into a new recessionary spiral has been blunted by evidence that major economies are already suffering an economic slowdown. The sovereign debt crisis in the eurozone and the unexpected slowdown in growth in the U.S. have helped depress the price of oil in the commodities markets to well below $100 a barrel, the lowest level in eight months. Lower oil prices are bad news for Iran for two reasons. First, they slash the Islamic Republic’s principal source of income. Second, they make the cost of conflict with Iran more bearable for the West. Tehran and the West continue their talks over Iran’s uranium enrichment efforts, with Iran insisting the program has only peaceful intent and the West, bolstered by analysis from International Atomic Energy Association inspectors, claiming that the program looks suspiciously like one aiming to produce nuclear weapons. New talks are scheduled in Moscow for June 18, but there is scant evidence that the two sides are coming closer to an agreement. The threat of military action hangs in the air as Israel watches warily and Washington reiterates that “all options” are on the table. As a top oil producer, with control of the sea lane through which other major oil exporters ship their hydrocarbon exports to the rest of the world, Iran has enormous potential to greatly disrupt oil markets. Its geographical location, spanning the eastern shores of the Persian Gulf, means that global oil supplies could suffer as an unintended consequence of military conflict. But it also gives Tehran the ability to squeeze supplies deliberately. Just how seriously the West takes the risk became evident late last year, when Iran threatened to block the flow of oil through the Persian Gulf. As the West announced stricter economic sanctions, Iranian Vice President Mohammad Reza Rahimi warned that “not a drop of oil will pass through the Strait of Hormuz” if the planned measures went into effect. About 40 percent of tanker oil, or 20 percent of global oil supplies, pass through Hormuz. Stopping that flow would send a shockwave through oil markets. Washington did not take the threat lightly. The chairman of the U.S. Joint Chiefs of Staff, Gen. Martin Dempsey, put it plainly: If Iran moved to close the strait, he said, the U.S. would “take action and reopen the strait.” The same message was repeated by Defense Secretary Leon Panetta and reportedly delivered through a secret channel to Iran’s supreme leader, Ayatollah Ali Khamenei, who was informed that closing the strait would constitute the crossing of a “red line” that could trigger an armed military response. Much has happened in the ensuing months. Before Iran has had a chance to decide if it wants to stop the flow of its own petroleum products, the West is planning to slash purchases of Iranian oil. A European Union embargo is scheduled to start in July, and China has already cut its purchases of Iranian oil by about a quarter. Even Turkey has sharply reduced purchases of Iranian oil. Under normal circumstances, squeezing the flow of crude oil from the world’s second-largest producer would be a form of self-flagellation for the West. But oil supplies have been deliberately boosted from other sources, just as demand is easing because of economic problems. Saudi Arabia, which sides with the West against Iran, its historical rival, has increased oil production to the highest levels in 23 years. And overall OPEC output has reached the highest level since 2008. Iran plans to pressure OPEC to lower production during this month’s meeting, hoping to raise prices. Iran still has the ability to disrupt oil markets, which will undoubtedly affect consumers everywhere. But major oil-importing nations have sent notice that they are prepared to deal with threats to the global supply. During last year’s war in Libya, another important oil exporter, the International Energy Agency surprised markets with its announcement that it would release 60 million barrels from the global strategic petroleum reserves. The announcement alone caused prices to drop 4.5 percent in one day. As tensions have heated up with Iran, Washington has persuaded its allies to draw up a similar plan. During last month’s G-8 meeting in Chicago, the world’s major economies agreed to coordinate their response and work together to lower oil prices should a confrontation with Iran make it necessary. Meanwhile, as the West moves to reduce its dependence on Iranian oil or on oil that passes through the Strait of Hormuz, Gulf oil producers are seeking alternate routes to bring their hydrocarbons to the global market. The United Arab Emirates, the fourth-largest exporter, is about to open a 225-mile pipeline that will allow it to bypass Hormuz to reach shipping terminals for its oil exports. And Abu Dhabi is reportedly planning yet another pipeline for its liquefied natural gas, also allowing it to reach tankers without passing through the narrow strait. In the meantime, the U.S., the world’s biggest consumer of oil, has managed to considerably lower its reliance on crude oil imports. Higher domestic oil and natural gas production has resulted in a significant decline in America’s need to buy from international markets, bringing seaborne imports to the lowest levels in more than 15 years. America still imports 45 percent of the oil it consumes, and the price of those imports is set by the global commodities markets. That means that the U.S., like any country that imports fuel, would feel the effects of a conflict in the world’s top oil-producing region, the Persian Gulf. But Iran’s ability to unilaterally inflict pain has been sharply reduced. Even more troubling for Iran, if a war started today, global oil supplies are better prepared to withstand the shock than they have been in a long time. As the world worries that Iran may build a nuclear weapon, Iran’s most powerful weapon to keep a Western military strike at bay has become much less effective.

### Turns Econ

#### Iranian conflict causes recession

Fontevecchia 12 [Agustino Fontevecchia Markets Reporter at Forbes Magazine columnist at diario perfil Columnist, Foreign Representative at Diario Perfil, third largest newspaper 2/24/12 <http://www.forbes.com/sites/afontevecchia/2012/02/24/attacking-iran-will-push-the-u-s-back-into-recession/>]

With oil prices hitting multi-year highs, in great part because of geopolitical concerns, the option of a belligerent conflict with Iran has once again been put on the table. Be it war with Israel or a preemptive strike by U.S. air forces, the reality is that a sustained conflict with Iran would tip the U.S., and possibly much of the developed world, back into recession.Crude oil is once again on the rise. Euro-denominated Brent crude soared to record highs above €93 a barrel on Thursday, while U.S. benchmark WTI was trading at $109.70 by 4:00 PM in New York on Friday, its highest levels since the April 2011. Before the early 2011 rally, the last time WTI hit prices that high was in 2008, when they peaked near $150 a barrel as the world plunged into recession. Several factors have conspired to push crude oil on a dangerous new uptrend, but by far the most salient is the risk of a military conflict with Iran that would disrupt the flow through the Strait of Hormuz. According to HSBC, such disruption could send prices north of the 2008 peak and possibly into a more than 100% year-over-year increase that would tip the U.S. back into recession. More than one-fifth of the world’s daily production of crude oil flows through Hormuz, including more than 60% of Asia’s imports. The Strait, only 21 nautical miles wide at its narrowest point, lies between Iran and the United Arab Emirates and has been the center of attention ever since the Iran-Israel-US conflict bubbled up once again in recent months. Iran’s nuclear pretentions have scared Israel, the U.S.’ most important military ally in the region. The fear is warranted according to Dennis Gartman, who explained Iranian president Mahmoud Ahmadinejad has declared himself a follower of a “nihilist” school of Islamic thought that believes “in the return of the “Mah’di”… the 12th Imam… who will, after a holocaust and the annihilation of the non-Muslims, establish a global Islamic society.” Ahmadinejad has publicly said that Israel should be wiped off the map, and, according to Gartman “has made it clear that it is his intention to destroy Israel and if that shall require a nuclear weapon and war so be it. He is prepared to push ahead with martyrdom, and martyrs make for impossible debaters.” While debatable, Gartman’s latter point has stirred the military ranks of Israel and the U.S. The issue of attacking Iran has once again taken media prominence and there isn’t a shortage of advocates for such a move. Gartman, at least, believes that “market’s focus and positions are being established fearing that sooner rather than later Israel shall have to act against Iran’s nuclear facilities, with time running out.” Such a conflict would have devastating consequences for the global economy. As mentioned above, a severe disruption of maritime flow through the Strait of Hormuz would send WTI above the 2008 peaks and possibly to the $210-$220 per barrel region. “With oil prices already high,” explained HSBC’s analysts, “it might take a smaller rise in the real oil price to push the US economy back into recession.”

# Nigeria – NEG

## Internal Links

### Oil K2 Econ

#### Oil is key to sustaining Nigeria’s economy

Day 7-8-12 [This, (Lagos), Newsletter, Africa News, ‘Nigeria: Can India Offset Nigeria’s Fiscal Worries?’ LexisNexis, JP]

Ever since the reports on the emergence of India as Nigeria's major export trading partner broke out, economic affairs commentators have continued to weigh the pros and cons of the new development which relegated the United States of America into the second position in the ranking of Nigeria's trading partners. US had remained Nigeria's major trading partner since 1964; obviously on account of its reliance on Nigeria's oil export. Coordinating Minister for the Economy and Minister of Finance, Dr. Ngozi Okonjo-Iweala, had recently warned that the Nigerian economy risked a fiscal crisis as a result of sustained depletion of the Excess Crude Account (ECA) as well as the failure to grow oil savings. The minister's concern was apparently informed by the fluctuations in international crude oil prices given that Nigeria is currently a mono- economy which relies heavily on oil revenues to fulfill her obligations. Nigeria's economic situation was also compounded by weak oil sales, illegal bunkering activities and massive crude oil theft in the Niger Delta region in recent times. These activities had often expectedly impacted negatively on total revenue generated into federal government coffers on a monthly basis.

#### Oil is key to the Nigerian economy, relations, and government – the alternative is collapse

Luqman & Lawal 11 [Saka and Fatima Motunrayo, BSc Hons Political Science, MSc Political Science University of Ibadan, Nigeria. Doctoral Research Student in International Studies, Northern University of Malaysia, Researchers World, Scholarly Journals, ‘The Political Economy of Oil and the Reform Process in Nigeria’s Fourth Republic: Successes and Continue Challenges,’ April, Educational Research Multimedia & Publications, pages 59-76, ProQuest, JP]

A quick glance at the structure of the Nigeria economy will reveal its precarious nature notwithstanding it position as the third largest economy on the continent after South Africa and Egypt. The most noted of the absurdities is the over-reliance of the economy and its fate on one sector (the oil industry) and on one commodity export (crude-oil). Hardly could anything be written about the political ecnomy of Nigeria without reference to it history of oil production. In the same vein, the political history of post-civil war Nigeria will be incomplete outside of the oil discourse and it impacts on the nation's politics, economy, socio-ethnic relations and governance process in general. The story of oil is but a contrast, massive oil rents accruable to the coffers of the Nigerian state has for decades keep the three tiers of government across the federation afloat (Etekpe, 2007). While the oil industry remains the main stay of the Nigeria economy its contribution to the local economy of the Niger Delta has albeit been a mixed one.

#### Oil key to Nigerian econ – empirics prove

Luqman & Lawal 11 [Saka and Fatima Motunrayo, BSc Hons Political Science, MSc Political Science University of Ibadan, Nigeria. Doctoral Research Student in International Studies, Northern University of Malaysia, Researchers World, Scholarly Journals, ‘The Political Economy of Oil and the Reform Process in Nigeria’s Fourth Republic: Successes and Continue Challenges,’ April, Educational Research Multimedia & Publications, pages 59-76, ProQuest, JP]

The years of boom of the 1970s and the bust period that followed throughout the 1980 adversely affect the stability and wellbeing of the Nigeria economy no doubt. However, the close correlation of fluctuation in the economy to this cycle of boom and bust shows the importance of the oil industry and the extent of the ecnoomy dependence on the industry. Beginning from 1970 contribution of the oil industry to Nigeria GDP, total national export and contribution to government revenue has been on the increase. With this rise, the oil industry has and continued to occupies a primate position in the structure of the nation's economy. The growth in the oil industry has enhance Nigeria position in the global energy market and in international politics. With a daily production of more than 2 million bpd and proved reserve of 32.6 billion barrels of crude-oil by 2008 Nigeria is not only the largest producer in Africa, the country has the continent second largest recoverable reserve of crude-oil. Nigeria is today ranked among the top ten largest crude-oil producing nations and is the sixth largest exporter of crude-oil in the world (BP, 2009).

#### Nigerian oil industry is key to overall trade

Luqman & Lawal 11 [Saka and Fatima Motunrayo, BSc Hons Political Science, MSc Political Science University of Ibadan, Nigeria. Doctoral Research Student in International Studies, Northern University of Malaysia, Researchers World, Scholarly Journals, ‘The Political Economy of Oil and the Reform Process in Nigeria’s Fourth Republic: Successes and Continue Challenges,’ April, Educational Research Multimedia & Publications, pages 59-76, ProQuest, JP]

The dominant position of the oil sector in the Nigeria economy also reflect in it dominance of the nation foreign trade, in particular that of export. Starting from 1970, the contribution of oil export to total national export overtake that of non-oil component of which agriculture is the main contributor and this has since been the trend. Increasing oil export over the years has help to increase the volume of Nigeria’s total trade. The sheer volume and monetary value of Nigeria’s oil export has also help the nation to maintain a positive and healthy balance of trade over the years.

#### Oil is the biggest internal to foreign investment, which is in turn key to individual sectors of the economy

Tenuche 10 [Marietu, Journal of Politics and Law 3.2, Volume 3 Issue 2, pages 139-147, September, at the Canadian Center of Science and Education, Toronto, Law and Political Science, Scholarly Journals, ProQuest, JP]

Continuing, the World Bank Report stated that the "markets and states should not be viewed as opposites, but as complementary, the state's role being essential for putting in place the appropriate institutional foundations for markets". In consonance with this, developing countries compete to attract foreign investments by creating conducive environment for capital growth sometimes at the expense of the development of their economies. For most developing societies, FDI is seen as inevitable if the economies are to grow, since such  provide vital capital in form of money or technical manpower often required for expanding infrastructure, promoting development needs, and distributing wealth to the impoverished people in society. Krugman (2002) said "the raw fact is that every successful example of economic development....... has taken place via globalisation... To claim that workers have been impoverished by globalisation .... You have to forget that those workers were even poorer". The cumulative implication of this position is that the ideology of relying on foreign capital to propel development became an idiosyncrasy among leaders in the third world. For Nigeria, as at 2005 Official Development Assistance (ODA) received amounted to US$6,439.53 million; while the net foreign direct investment inflows as percentage of GDP was 2.0. Private investment into the country has been on the decline with a result that the state is making overtures to foreign investors to invest in the Nigerian State (UNDP, 2007, Pg 292). President Olusegun Obasanjo and a number of State Governors were accused of suspending enormous state funds on overseas travels which was usually done under the guise of Government efforts to attract investors between 1999 and 2007. Developing states compete in the race to attract investors not only to encourage new investment but also to take over the key sectors of the economy especially public institutions from where government is divesting. Government's position is that public organisations are not able to justify the huge amount of public funds injected into them (El-Rufai, 2003). Government therefore resolved as part of its privatization and commercialization strategy to transfer the ownership, management and control of these public enterprises into private hands albeit for effective and efficient service delivery. A number of public enterprises hitherto considered as strategic state assets were not left out of the exercise. The enterprises include the oil and gas sector, energy sector, telecommunications and the iron and steel industry among others.

#### Oil is key to the Nigerian national budget

Ogege 11 [Samuel Omadjohwoefe, Ph.D, Journal of Sustainable Development, pages 249-258, August, at the Canadian Center of Science and Education, Scholarly Journals, ProQuest, JP]

The Niger Delta region is naturally endowed with vast oil and gas deposits. The resources attracted the Anglo-Dutch consortium; Shell D'Arcy - a subsidiary of Shell British Petroleum for the purpose of prospecting for crude oil. In a quick succession, other multinational oil companies acquired licenses to also prospect for oil and gas deposits in the Niger Delta. Thus, the Niger Delta became a beehive of crude oil exploratory activities. With the discovery of crude oil in commercial quantity in Oloibiri (present day Bayelsa) in 1956, exploratory activities in the Niger Delta became intensified. The intensification of exploratory activities contributed immensely to the Nigerian state powering economic growth and development. Apart from its contribution of about 90 percent to Gross Domestic Product, crude oil also accounts for about 95 percent of the expected revenue upon which national budget estimates are based (IMF 2003). With these enormous contributions of the Niger Delta region to national treasury, the indigenes naturally expect that this new economic order will better their lots remarkably by providing employment opportunities, infrastructural development, improved standard of living and above all, sustainable development. This anticipation and enthusiasm is underscored by Madume (1992) who contends that any community that had oil in its earth crust, got their gods sanctified for the unique blessings. The most perplexing paradox is that, rather than better the lots of the host communities in the Niger Delta, development is skewed in their disfavour. The overall picture that pervades the region is that virtually all the host communities have one sad tale or the other to share about their miserable experience heaped on them by the multinational oil companies in return for exploiting crude oil in their lands. The inhabitants of host communities generally felt marginalized, cheated and left out in the lurch from the concomitant largesse of contemporary oil revenues. In other words, there is a strong perception of being removed from the concrete realities of a prosperous nation whose financial prowess is continuously rejuvenated from the bowels of their communities.

### XT: Econ Key to Stability

#### Oil is key to Nigerian stability – all government activities are influenced by oil

Luqman & Lawal 11 [Saka and Fatima Motunrayo, BSc Hons Political Science, MSc Political Science University of Ibadan, Nigeria. Doctoral Research Student in International Studies, Northern University of Malaysia, Researchers World, Scholarly Journals, ‘The Political Economy of Oil and the Reform Process in Nigeria’s Fourth Republic: Successes and Continue Challenges,’ April, Educational Research Multimedia & Publications, pages 59-76, ProQuest, JP]

For four decades Nigeria’s economic policies, growth, and other related activities has been largely influenced by one sector, the oil industry and one commodity, crude-oil production and export. To say that the economy is heavily dependent on the oil industry will amount to an understatement as the oil industry is nothing short of a life-blood for the Nigeria economy. Like all energy resource dependent economy, the Nigeria economy remains highly unsheildded from the swing and volatility that characterized the world energy price. Thus, circles of boom and bust in the international price of crude-oil has seriously affected macro-economics stability of the economy. Nigeria case is worsen by the failure of the state to diversify the economy away from it four decades of over-depenedent on crude-oil production and export (Uwakonye, Osho and Anucha, 2006).

#### Oil is uniquely key to Nigerian social services and social development in the region

Benedict 11 [Akpomuvie Orhioghene, Ph.D, Journal of Sustainable Development Volume 4 Issue 3, pages 210-222, at the Canadian Center of Science and Education in Toronto, Business and Economics and Environmental Studies, ‘Breaking Barriers to Transformation of the Niger Delta Region of Nigeria: A Human Development Paradigm,’ ProQuest, JP]

Behind the Delta's poor performance on human development, is a complex brew of economic, social, political and environmental factors. Social instability, poor local government, competition for economic resources and environmental degradation has taken a toll. The general neglect of infrastructure often rationalized by the difficulty of the delta's terrain, has worsened the peoples access to fundamental services such as electricity, safe drinking water, roads and health facilities that are taken for granted in many others parts of Nigeria. Addressing the region's development challenges begins with using its vast oil wealth to create an environment in which the people can flourish. The inhabitants of the area should be able to live valued and dignified lives, overcome poverty, enjoy a peaceful atmosphere and expect a sustainable environment. For development to be meaningful here, people centered and sustainable, this paper proposes a seven-point human development agenda: promotion of peace as the foundation for development, make local governance effective and responsive to the needs of the people, improve and diversify the economy of the region from oil, promote social inclusion and improve access to social services, promote environmental sustainability as well as the means of sustainable livelihoods and build sustainable partnerships for the advancement of human development in the region. The different levels and branches of government should form partnerships around plans for sustainable development and the attainment of the MDGs; accountability and transparency in the use of available resources; creation and sustenance of the right environment for meaningful development; promotion of investment; social inclusion and popular participation in decision-making; broad-based consultations for peace building; deliberate empowerment of women and youth groups and resource mobilization for development.

### A2: Dutch Disease

#### Nigerian oil dependence is key to national education and diversification

Obuh 11 [Providence, Vanguard News, December, ‘Fashola Expresses Fear Over Nigerias Oil Dependence,’ http://www.vanguardngr.com/2011/12/fashola-expresses-fear-over-nigeria%E2%80%99s-oil-dependence/]

Governor Babatunde Raji Fashola, last week, expressed concern over the country’s huge dependence on oil resources for its revenue generation. Fashola put forward his worry while delivering a keynote address at the  Annual Luncheon of Government College Ughelli Old Boys Association (GCUOBA) in Lagos. He said, “OftentimesI wonder where Nigeria would be today if we had no oil for which to derive this constant flow of foreign exchange, we now squander shamelessly in all manner of imports, perhaps we would now be in abject poverty.”  This is in spite of the country being the first in Africa to strike oil and earn foreign exchange in large quantity, yet it is completely incapacitated, depending on the rest of the world for shoes, underwears, food and even for its entire service. “Why is it that even as a 51- year-old oil-producing country, we rely on the rest of the world for petrol to drive our imported cars, diesel to fuel our imported generators and kerosene to cook our imported rice? “Speaking on the state of the nation’s educational institutions, he said: “Nigeria is fully dependent on others for virtually everything which is due to our error in education. We have to go back to our educational institutions and get things right before it is too late.”To this end, he pointed out that there are no less than 20,000 Nigerian medical professionals working outside the country, stating that many Nigerians are doing research, innovation and invention abroad because their prosperity is assured there. “Countries that ignore matters of education are subjugated to the rank of perpetual consumers, always importing goods and services including food and education when they can, and suffering literally in the midst of plenty when they cannot. When you look at countries that are good today, they are as good as the educational institutions they have put in place.” We all know how universities in most developed economies fight hard to keep fund and retain best brains from all nooks and crannies of the world.”

### Brink

#### Nigeria is on the brink of economic collapse

Umoru & Shaibu 5-23-12 [Henry & Inalegwu, Vanguard News, ‘Nigeria Economy Will Collapse If… -CBN Warns,’ http://www.vanguardngr.com/2012/05/nigeria-economy-will-collapse-if-cbn-warns/]

ABUJA- THE Central Bank of Nigeria, CBN, warned Wednesday  that if the present autonomy being enjoyed by it was removed, the nation’s economy stands the risk of collapsing. The country’s apex bank also urged the Senate to jettison the move if the nation’s economy must grow and for the realization of the set target of becoming one of the top largest economies of the world in the year 2020, adding that the CBN will be incapacitated once there was no longer the existing autonomy. It becomes easy for government to then wake up and ask the bank to print more money to meet certain expenditure and the economy collapsed.’’ Meanwhile, the Chairman Senate Committee on Banking, Insurance and other Financial Institutions, Senator Ayo Ademola Adeseun, ACN, Oyo Central has warned that if very drastic action was not taken on the nation’s economy and the present challenges, the next two years will be bad for the country, just as he promised that the National Assembly will continue to support the Central Bank in its move to drive the economy of the country. Speaking further, the CBN deputy Governor, Mrs Alade while answering question on the $6.9 billion external borrowing being sought by the Federal Government, said ‘’we don’t want the debt to be too much because of the capacity to service it. It is not the loan but what it is used for. ‘’As long as the government is sure that the loan will be used to create employment and pay itself. When we take a loan, the burden should not come back to the government. The quantum of the loan is also an issue’’.

## Impacts

### Terrorism

#### Nigerian collapse causes civil war and terrorism

Maginnis 12 [Robert Maginnis is a retired Army lieutenant colonel, and a national security and foreign affairs analyst for radio and television.7/10/12 <http://www.humanevents.com/2012/07/10/nigeria-follows-violent-path-of-war-stricken-somalia/>]

Unless the Nigerian government quickly acts that African country could collapse into sectarian civil war and eventually become a terrorist haven like Somalia. That prospect creates a serious challenge for American interests in the region. Nigerian President Goodluck Jonathan said the homegrown Islamic extremist group Boko Haram is inciting a religious crisis by attacking Christian churches in an attempt to destabilize the government. Those attacks have taken more than 1,000 lives over the past year and the volume, lethality and sophistication of the attacks are escalating. Recent church attacks polarized Nigerians. “I held a position that it is not a religious war in the past,” said Nigerian Senator Ita Solomon Engang, a Christian. “But my position on that is becoming shaky …. I would say this is like a jihad [Islamic holy war],” Engang told the Nigerian Tribune. Indeed, Boko Haram is employing jihad to set sectarian violence in motion much like al Qaeda in Iraq waged jihad against Shiite targets which resulted in civil war. Helping Nigeria avoid civil war serves American interests because it is an important trading partner and it could become an epicenter for transnational terrorists that would threaten our interests and perhaps homeland. America already experienced Nigerian terrorism vis-à-vis Umar Farouk Abdulmutallah, the foiled Detroit-bound underwear bomber on Christmas day in 2009. He was seen as a loner with no links to Boko Haram, but should Nigeria collapse into civil war terrorists will flood in to destabilize the country, region and threaten global interests. Further, America wants a stable Nigeria because it is a source of important minerals like iron and tin and it is an important hydrocarbon source. Nigeria exports 8 percent of America’s daily oil needs and has 37 billion barrels of proven oil reserves and 5 trillion cubic meters of gas. Nigeria is vulnerable to sectarian civil war for three reasons. First, Nigeria has a large Muslim population with a history of jihad. Islam has deep historical roots in the area now known as northern Nigeria that date back to the 11th century. Two hundred years ago northern Nigerian Muslims led a jihad to force the Hausa tribe to adopt Islam and then it imposed Shari’a [Islamic law] as the legal basis for Muslims. Nigeria’s contemporary Boko Haram group traces its jihadist ideology from the tradition of the radical Muslim jama`a groups. Their aim is to establish an Islamic Shari’a state through violence and Boko Haram’s founder, Muhammad Yusuf, embraced that view with his aim to emulate the experience of the Taliban by establishing an “Afghanistan” in Nigeria. Yusuf was also associated with Salafism of the Wahhabi variety – the strictest Islamism ideologues like al Qaeda – and he taught that Western civilization is “forbidden” because it contradicts Islam, thus the group’s name Boko Haram. Therefore the group’s aim is to expunge Nigeria of Western influence, which for many in the north means chasing out all Christians, and then Islamize the country through jihad and forced conversion. Historically Nigerian Christian-Muslim violence occurs in the volatile “middle belt” in the central region of the religiously-split, 36 state country. Now Boko Haram is expanding its jihad beyond the “middle belt” which feeds sectarian hatred making civil war more likely. Second, northern Muslims consider the Abuja government illegitimate which fuels Boko Haram’s appeal and recruitment among Muslims. Nigeria is corrupt at every level, according to Transparency International, and as a result Nigerian democracy has a bad reputation among northern Muslims who are attracted to Boko Haram’s message. The group portrays elections as a Western-style “innovation” as well as a “religion,” which fits the group’s anti-West ideology. Further, northern Muslims also tend to feel disenfranchised by the current government because President Jonanthan, a Christian southerner, is not one of their own. The practical consequence of Jonathan’s position is he controls the distribution of Nigeria’s $60 billion in annual oil revenues which understandably enrages northerners who are cut off from Nigerian wealth. Meanwhile, the average northerner lives on less than $2 a day and two out of three young people in the region are unemployed. No wonder Boko Haram’s message is appealing. Northern Muslim frustration is reflected in Boko Haram’s latest ideological warning. Last July the group threatened Nigeria must stop abiding by Abuja’s constitution and the government must stop terrorizing Muslims. And because the Abuja – read Jonathan – government is not Islamic, anyone who works for that government is an “infidel and could be killed.” That pronouncement gave Boko Haram license to intensify its insurgency, to attack churches, security forces and government installations which make civil war more likely. Third, Boko Haram joined the global Islamic extremist movement. Musa Tanko, a Boko Haram spokesman, announced the group’s intention to join the transnational Islamic extremist movement. He said “Islam doesn’t recognize international boundaries; we will carry out our operations anywhere in the world if we can have the chance.” He specifically mentioned the U.S. as a terrorist target. That statement was soon following by an attack on the United Nations compound in Abuja.

### Africa Econ

#### Nigerian instability hurts neighboring economies

Thurston 12 [Alex, Ph.D. at Northwestern University, ‘Instability in Nigeria Hurts Neighboring Economies, February 24, http://www.csmonitor.com/World/Africa/Africa-Monitor/2012/0224/Instability-in-Nigeria-hurts-neighboring-economies]

Attacks by the Islamist rebel sect [Boko Haram](http://www.csmonitor.com/tags/topic/Boko%2BHaram) in northern [Nigeria](http://www.csmonitor.com/tags/topic/Nigeria), along with border closures and expulsions of foreigners by Nigerian security forces, are beginning to hurt the economy of neighboring [Niger](http://www.csmonitor.com/tags/topic/Niger). RIN [reports](http://www.irinnews.org/report.aspx?reportid=94904): For generations, Diffa, the arid southeastern corner of Niger, has benefited from being closer to Nigeria than to commercial centers in Niger: Staple grains, fuel, clothing and other items at attractive prices have made their way across the border. Diffa’s main outputs – livestock, dairy produce and red peppers – have also found a ready market in Nigeria. Common languages and family ties have strengthened links to such an extent that the [Nigerian naira](http://www.csmonitor.com/tags/topic/Nigerian%2BNaira) is Diffa’s main currency. But Nigeria’s latest export, [Boko Haram militants](http://www.irinnews.org/report.aspx?reportid=94691), is less welcome: It has forced the authorities to close the border, with tragic consequences for Diffa, just as it is trying to deal with the worst drought in recent years. IRIN adds that these problems come at a bad time for Niger, given that drought is already pushing up food and livestock prices. Local markets, deprived of customers from Nigeria, are suffering. The loss of cross-border trade and workers’ remittances from Nigeria could really hurt Niger – closing, in a sense, the economic “safety valve” that has formerly allowed people from Niger to seek money and work in Nigeria when times are tough at home. Boko Haram’s violence in Nigeria is also having an effect on the security situation in Diffa: About three weeks ago, the authorities arrested 15 people suspected of affiliation to Boko Haram, seized home-made explosives and grenades, and uncovered a plan to bomb several public places in Diffa, said Tinni Djibo, assistant secretary-general of Diffa. So far there have been no Boko Haram attacks in Niger that I know of, but this incident certainly raises concerns. Nigerian authorities’ efforts to drive foreigners out of the country could mean that some Boko Haram members end up in the surrounding countries, where they may attempt acts of violence.

### Africa War

#### Nigerian instability causes a civil war – empirically proven

Atofarati 92[Abubakar, Major, US Marine Command and Staff College, in History, CSC 1992 ‘The Nigerian Civil War: Causes, Strategies, And Lessons Learnt,’ http://www.globalsecurity.org/military/library/report/1992/AAA.htm]

The Nigerian Civil War broke out on 6 July 1967. The war was the culmination of an uneasy peace and stability that had plagued the Nation from independence in 1960. This situation had its genesis in the geography, history, culture and demography of Nigeria. By the end of April 1969, after almost two years of bloody and destructive war, the envisioned quick victory had eluded the Federal side, the rebel enclave had been drastically reduced in size but the Biafrans were still holding on. More peace conferences were held but none achieved a cease - fire and an end to the war. The Federals embarked on a strategic envelopment of the remaining Biafran enclave. By the Christmas of 1969, it was obvious that the end of the civil war was near.

### Sexism

#### Nigerian civil war causes sexism – makes women invisible

Pape 05 [Marion, in Matatu, in the Editions Rodopi B. V. in Amsterdam, Netherlands, in the Literary and Political Reviews, Scholarly Journals, ‘Nigerian War Literature by Women From Civil War to Gender War,’ ProQuest, JP]

THE ENDURING WARTIME PICTURE of 'man does, woman is' has depended on the invisibility of women's participation in the war effort, their unacknowledged, behind-the-lines contributions to the prosecution of war, and their hidden complicity in the construction of fighting forces," writes Meredeth Turshen in her book on gender and conflict in Africa.1 Whether they wanted it or not, women have always been involved in wars, actively in many different roles, passively as victims of violence, hunger, and displacement - yet, in the representation of wars they have remained largely 'invisible' . It was only when women themselves began veibalizing 'their' war and started to question the warmyths of the gender separation into 'active men fighting the war' and 'passive, non-fighting women at home' that they became more visible. These myths became obsolete at the latest when wars became 'total' and 'postmodern':civil or liberation wars where home front and war front were more or less identical.2 According to Jean B. Elshtain, the 'absence' of women from war literature has also to do with the question of who has the right to war memories, which is to say that although women were present in the war, their experiences were not considered of particular interest or importance, because war was man's business and the essential roles women played in the war were seen as selfevident.3 If in the past a female author claimed her right to warmemories, she broke several taboos, as Margaret Higonnet writes in her study of Victorian and post- Victorian warliterature: "First and most important, she articulates knowledge of a 'line of battle' presumed to be directly known and lived only by men." Women were supposed to be silent when men were fighting; furthermore, when women described battles they not only contravened decency and morals by invading the male terrain of war and the male body and its language, they also entered a political terrain forbidden to women. "If she wrote realistically, she could face official censorship for producing demoralizing, unpatriotic texts. [...] a woman who had not been called upon to make parallel sacrifices [...] had no right to criticize the very system that protected her."4 Contrary to this, in the texts of almost all the authors from outside Biafra a nearly permanent gender war takes place. If at all, harmony between the sexes is seen to be possible only in a distant, much better future. Marriages are characterized by fighting, physical violence, and rape. The female protagonists are exposed to sexual and domestic violence to such a degree that it seems as if these writers from outside the actual battle zone mirror the war in their fictional battle of the sexes. In Anne Amu-Giwa's novel Sade, the protagonist is trapped in the war zone together with her unloved husband, who forces his marital rights upon her. Amu-Giwa and others use the civil war as a suitable backdrop for the marital mess that sometimes ends in a kind of a 'men-free zone' or in a utopia peopled only with 'new men and women'. In Eno Obong's novel Garden House, for instance, the leader and idolized hero of the 'new nation' is a former soldier who was emasculated during the massacres that preceded the civil war. He later puts all his energies into building the new "Abuja," inhabited only by war orphans, formerly abused women, and 'new men' complying to new rules. The female protagonists in these texts are on their way to redefine their identity and confidence, if necessary without a husband or the presence of a man, like the protagonist in Sade.

### V2L

#### Nigerian civil war kills value to life

Uchendu 07 [Egodi, Africa, Edinburgh University Press, United Kingdom, Scholarly Journals, ProQuest, JP]

Many interviewees maintained that children suffered more than any other group during the civil war. One impact was the corruption of morals through exposure to camp life. Refugee centres indiscriminately juxtaposed children with adults and civilians with military personnel. In Ofoemezie's opinion, 'The camps were morally unhealthy for children; there was no privacy. Most of the adult activities were fully observed by children.' The Igbo communal attitude to death and dead bodies was disoriented by the war. Where previously dead bodies were treated with dignity and buried soon after death, with children shielded from the surrounding rites and often prohibited from gazing at dead bodies, Enyinta remembers that in Abakaliki 'the sight of corpses was something many children were no longer frightened of or wailed over because they littered all corners of the town'. Ugwuogwu the carpenter agrees, adding that the war diminished the value of life. Frequent encounters with dead bodies forced children to grapple with issues of life and death at an early age. While it terrorised some mentally and emotionally, it caused in others some degree of indifference to the sanctity of human life. These impacts were carried over to peacetime and were blamed for manifestations of violent behaviour by young people immediately after the war(Eluwa).