# Oil DA

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## Saudi Arabia 1NC Shell

### High oil prices now– Saudi Arabia maximizing profits

**Bloomberg 5/15** ( “Saudi Arabia’s Economy Will Expand 5.3% on Oil Prices, NCB Says”, http://www.saudinewstoday.com/article/61352\_\_Saudi+Arabia%E2%80%99s+Economy+Will+Expand+5.3%25+on+Oil+Prices,+NCB+Says) SV

Saudi Arabia’s economy will expand 5.3 percent this year, powered by higher oil prices and more government spending in the Arab world’s largest economy, National Commercial Bank said. The kingdom, which depends on oil for 86 percent of its revenue, announced increases in government spending in March as protests calling for more job opportunities and democracy engulfed the Middle East. The package included $67 billion on housing and funds for the military and religious groups that backed the government’s ban on domestic protests, and followed a $36 billion handout announced on Feb. 23. With higher oil prices, Saudi Arabia will record a budget surplus of 62.8 billion riyals ($16.8 billion), National Commercial said. Oil revenue this year is expected at 828.2 billion riyals, it said. The break-even oil price required to balance the budget this year will increase to $84 a barrels this year from $65 a barrel last year, the bank said. Oil prices have increased 8.8 percent this year. Crude oil for June delivery gained 68 cents to $99.65 a barrel on May 13 on the New York Mercantile Exchange.

### The plan lowers the expected future demand for oil—causes oil prices to plummet

Feldstein, ‘8 - Martin Feldstein, 7/1/2008. Chairman of the Council of Economic Advisers under President Reagan, is a professor at Harvard and a member of The Wall Street Journal's board of contributors. “We Can Lower Oil Prices Now,” The Wall Street Journal, http://online.wsj.com/article/SB121486800837317581.html?mod=opinion\_main\_commentaries.

Unlike perishable agricultural products, oil can be stored in the ground. So when will an owner of oil reduce production or increase inventories instead of selling his oil and converting the proceeds into investible cash? A simplified answer is that he will keep the oil in the ground if its price is expected to rise faster than the interest rate that could be earned on the money obtained from selling the oil. The actual price of oil may rise faster or slower than is expected, but the decision to sell (or hold) the oil depends on the expected price rise. There are of course considerations of risk, and of the impact of price changes on long-term consumer behavior, that complicate the oil owner's decision – and therefore the behavior of prices. The Organization of Petroleum Exporting Countries (the OPEC cartel), with its strong pricing power, still plays a role. But the fundamental insight is that owners of oil will adjust their production and inventories until the price of oil is expected to rise at the rate of interest, appropriately adjusted for risk. If the price of oil is expected to rise faster, they'll keep the oil in the ground. In contrast, if the price of oil is not expected to rise as fast as the rate of interest, the owners will extract more and invest the proceeds. The relationship between future and current oil prices implies that **an expected change in the future price of oil will have an immediate impact on the current price of oil.** Thus, when oil producers concluded that the demand for oil in China and some other countries will grow more rapidly in future years than they had previously expected, they inferred that the future price of oil would be higher than they had previously believed. They responded by reducing supply and raising the spot price enough to bring the expected price rise back to its initial rate. Hence, with no change in the current demand for oil, the expectation of a greater future demand and a higher future price caused the current price to rise. Similarly, credible reports about the future decline of oil production in Russia and in Mexico implied a higher future global price of oil – and that also required an increase in the current oil price to maintain the initial expected rate of increase in the price of oil. Once this relation is understood, it is easy to see how news stories, rumors and industry reports can cause substantial fluctuations in current prices – all without anything happening to current demand or supply. Of course, a rise in the spot price of oil triggered by a change in expectations about future prices will cause a decline in the current quantity of oil that consumers demand. If current supply and demand were initially in balance, the OPEC countries and other oil producers would respond by reducing sales to bring supply into line with the temporary reduction in demand. A rise in the expected future demand for oil thus causes a current decline in the amount of oil being supplied. This is what happened as the Saudis and others cut supply in 2007. Now here is the good news. Any policy that causes the expected future oil price to fall can cause the current price to fall, or to rise less than it would otherwise do. In other words, it is possible to bring down today's price of oil with policies that will have their physical impact on oil demand or supply only in the future. For example, increases in government subsidies to develop technology that will make future cars more efficient, or tighter standards that gradually improve the gas mileage of the stock of cars, would lower the future demand for oil and therefore the price of oil today. Similarly, increasing the expected future supply of oil would also reduce today's price. That fall in the current price would induce an immediate rise in oil consumption that would be matched by an increase in supply from the OPEC producers and others with some current excess capacity or available inventories. Any steps that can be taken now to increase the future supply of oil, or reduce the future demand for oil in the U.S. or elsewhere, can therefore lead both to lower prices and increased consumption today.

### Lower Oil Prices causes Middle East War – Iran Nuclearization, Saudi Arabian Civil War, and OPEC economy

**Arena Resources 7** (“Why Flooding the Worldwide Market Place with Oil Will Not Stop Iran from Achieving their Nuclear Ambitions”, http://doktorstocks.blogspot.com/2007/01/why-flooding-worldwide-market-place.html, 1/11/2007) SV

OPEC would be badly damaged. Any price cuts would not only bring down the Iranian economy but also the economy of Saudi Arabia and all the rest of the OPEC countries. The OPEC countries are not willing to allow self inflicted wounds to their economies. Damage to the Saudi Economy would do more harm to their economy than Iran. A damaged Saudi economy could drive their citizens to revolt and a more dangerous radical regime could emerge to power in that country. While there are some countries in the Middle east who would feel uncomfortable with a nuclear Iran all of them would love to see Iran use nuclear force against Israel. Therefore there will be no organized effort on behalf of OPEC (or Saudi Arabia) in driving oil prices to levels that would bankrupt the Iranian economy.

### Middle East conflict causes global nuclear war

Steinbach 2002 – Analyst, Center for Research on Globalisation , http://www.globalresearch.ca/articles/STE203A.html

Meanwhile, the existence of an arsenal of mass destruction in such an unstable region in turn has serious implications for future arms control and disarmament negotiations, and even the threat of nuclear war. Seymour Hersh warns, "Should war break out in the Middle East again,... or should any Arab nation fire missiles against Israel, as the Iraqis did, a nuclear escalation, once unthinkable except as a last resort, would now be a strong probability."(41) and Ezar Weissman, Israel's current President said "The nuclear issue is gaining momentum (and the) next war will not be conventional."(42) Russia and before it the Soviet Union has long been a major (if not the major) target of Israeli nukes. It is widely reported that the principal purpose of Jonathan Pollard's spying for Israel was to furnish satellite images of Soviet targets and other super sensitive data relating to U.S. nuclear targeting strategy. (43) (Since launching its own satellite in 1988, Israel no longer needs U.S. spy secrets.) Israeli nukes aimed at the Russian heartland seriously complicate disarmament and arms control negotiations and, at the very least, the unilateral possession of nuclear weapons by Israel is enormously destabilizing, and dramatically lowers the threshold for their actual use, if not for all out nuclear war. In the words of Mark Gaffney, "... if the familar pattern(Israel refining its weapons of mass destruction with U.S. complicity) is not reversed soon - for whatever reason - the deepening Middle East conflict could trigger a world conflagration."(44)

## Russia Relations 1NC Shell

### Uniqueness & Link – US-Russian relations good now but stopping oil imports is the tipping point

**Jaffe 3** (Amy Myers, Wallace S. Wilson Fellow in Energy Studies at the James A. Baker III Institute for Public Policy at Rice University, “The Strategic Geopolitical Implications of Russian Energy Supply”, http://www.rice.edu/energy/publications/docs/Jaffe\_StrategicGeopoliticalImplicationsRussianEnergySupply.pdf) OP

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.

### Impact – Relations solve environmental destruction, regional wars, prolif, & multiple US-Russian nuke wars

**Cohen 00** (Stephen, Prof. Russian Studies – NYU, “Failed Crusade”, p. 196-205)

These assurances are manifestly untrue and, coming from U.S. officials, editorialists, an scholars, inexplica­bly myopic and irresponsible. Even leaving aside post­Soviet Russia's enormou stockpiles of chemical and biological weapons, “all of the major fault line of nuclear danger are growing," as we learn from a num­ber of largely unheeded experts, and U.S. policy "simply has not kept up with the expansion of nuclear dangers inside Russia."The truth may not be politically correct or palatable, but the breakup of the Soviet state and Russia's "transition" have made us immeasurably less safe than we have ever been. To understand how unsafe, we must explore more fully a generalization made earlier in this book: What does it mean for our security when a nuclear-laden nation state is, depending on how we choose to charac­terize Russia s condition today, disintegrating, collaps­ing, or merely "highly unstable"?40 The short answer is, no one fully knows, because it has never happened before, which itself means that compared with the rel­ative predictability of the Soviet system and the Cold War, we now live in an era of acute nuclear uncertain­ty. The longer answer is that any significant degree of disintegration, instability, or civil warfare, all of which exist in Russia today, creates not one but several unprecedented nuclear dangers. The most widely acknowledged, almost to the point of obscuring the others, is proliferation-the danger that some of Russia's vast accumulation of nuclear weapons, components, or knowledge might be acquired by non-nuclear states or terrorist groups through theft and black-market transactions, scientific brain drain, or a decision by a money-starved Moscow regime to sell them. The threat derives primarily from Russia's decade­ long economic collapse. The government has lacked suf­ficient funds to safeguard storehouses of nuclear materials properly or to pay maintenance personnel and scientists adequately, even regularly. (Nuclear workers actually went out on strike over unpaid wages several times in the 1990s and again in 2000, even though it is against Russian law.) Almost all of the existing U.S. programs to reduce nuclear threats inside Russia focus on proliferation. But even here, according to their official sponsors and other experts, the programs are "woefully inadequate" if we are "to prevent a catastrophe." By the end of 2000, for example, barely one-sixth of Russia's weapons-usable materials will be considered secure, and the "risks of `loose nukes' are larger today" than they were when the programs began. Moreover, Moscow seems to have no full inventory 0f such materials or perhaps even of its thousands of tactical nuclear weapons, and thus no sure way of knowing whether or not something is missing.\*' Proliferation is the pinup of Russia's nuclear dangers, the subject of Western novels and movies, but it may not be the most serious. If a nuclear explosion is wait­ing to happen, it is probably somewhere among Russia's scores of Soviet-era reactors at electrical power stations and on decommissioned submarines. Reactors, we are told, can be no less dangerous than nuclear weapons. And as the Senate's leading expert informed his col­leagues in 1999, Russia's "reactors suffer from defi­ciences in design, operator training, and safety procedures." Indeed, according to a Russian specialist, "none of our nuclear stations can be considered safe."42 The bell began tolling loudly on reactor catastrophes with the explosion at Chernobyl in 1986, the worst nuclear accident in history. Releasing more than a hun­dred times the radiation of the two atomic bombs dropped 0n Japan in 1945, its lethal consequences are still unfolding fourteen years later. Since the early 1990s, many reports. including one by the Russian gov­ernment itself in February 2000, have warned of the possibility of another "Chernobyl-type disaster" or, more exactly, of several accident-prone Russian power stations, even faulty research reactors.' (The world's most dangerous nuclear plants are said to be located in post-Communist Russia and other former Soviet republics.)' Scores of decommissioned but still not denuclearized Soviet-built submarines decaying in the far north great­ly worsen the odds in this new kind of Russian roulette. Here too firsthand reports of "a nuclear accident wait­ing to happen" are increasingly ominous. Ill-maintained floating reactors are highly vulnerable, and many sub­marines are already leaking or dumping radioactive materials into the seas "like little Chernobyls in slow motion. Active-duty Russian nuclear ships also pose a serious threat, their aging missiles susceptible to explosions, one likely to detonate others. If that happens Russian expert warns, "We can end up with hundreds of Chernobyls. Why, then, all the U.S. official and unofficial assur­ances that we are "immeasurably more secure" and ca stop worrying about "worst-case scenarios"? They clear­ly derived from the single, entirely ideological assump­tion that because the Soviet Union no longer exists, the threat of a Russian nuclear attack on the United States no longer exists and we need now worry only about rogue states." In truth, the possibility of such a Russ­ian attack grew throughout the 1990s and is still growing Leave aside the warning that "a Russian version of Milosevic . . . armed with thousands of nuclear war­ warheads" - might come to power and consider the pro­gressive disintegration of the country's nuclear-defense infrastructure. Russia still has some six thousand war­heads on hair-trigger alert. They are to be launched or not launched depending on information about activity at U.S. missile sites provided by an early-warning net­work of radars, satellites, and computers that now functions only partially and erratically. Russia's command-and-control personnel, who are hardly immune to the social hard­ships and pathologies sweeping the nation, have bare­ly a few minutes to evaluate any threatening information, which as already been false on occasion. (In 1995, a Norwegian weather rocket was briefly mistaken by Russian authorities for an incoming enemy mis­sile.) These new post-Soviet technological and human cir­cumstances of the nuclear age are, as American scien­tists have warned repeatedly, "increasing the danger of an accidental or unauthorized "attack on the United States" from Russian territory. It is "arguably already the greatest threat to U.S. national survival. Assurances to the contrary, scientists emphasize, are "a gross mis­representation of reality."' Readers may choose to believe that intentional nuclear war nonetheless remains unthinkable. In post- Soviet Russia, however, it has become not only increas­ingly thinkable but speakable. The Kremlin's new security doctrine expanding conditions in which it would use such weapons may be merely semantic and nothing really new. But Russia's ferocious civil war in Chechnya, which did not end with the destruction of Grozny in 2000, is, as I have pointed out before, the first ever in a nuclear country. It has not yet included nuclear warfare, but both sides have crossed a rhetorical Rubicon. Since '999, sev­eral Russian deputies and governors, and even a lead­ing "liberal" newspaper, have proposed using nuclear, chemical, or biological weapons against Chechnya. Said one, think nuclear weapons should stop being virtual." Russian military spokesmen, we are told, "do not exclude that a nuclear attack could be carried out against the bases of international terrorists in Chechnya."49 And with that tiny republic in mind, the military has officially adopted a new concept of "limited" nuclear warfare in a single region, a threat against the Chechen resistance still being discussed in May 2000. From the other side, there were persistent reports that terrorists serving the Chechen "holy war" might blow up Russian nuclear power plants or weapons sites. The reports were serious enough to cause Moscow to redouble security at its nuclear facilities and go percent of Russians surveyed to say they fear the possibility.' Such threats on both sides may also be merely rhetorical, but it is an exceedingly dangerous rhetoric never before heard. If nothing else, there has been more loose talk in Russia since 1999 about using nuclear weapons than measures to .prevent loose nukes. And it will likely increase if the Chechens expand their new guerrilla tactics farther into Russia itself, as they have promised to do. And so, post-Soviet Russia still matters to America in the most fateful of ways. The Clinton administration has worsened the dangers incalculably by taking step after step that pushes a Russia coming apart at the nuclear seams to rely more and more on its nuclear stockpiles and infrastructures-by making financial aid conditional on economic "reforms" that impoverished and destabilized the state; by expanding NATO's mili­tary might virtually to Russia's borders; by provocative­ly demonstrating during the bombing of Yugoslavia the overwhelming superiority of U.S. conventional weapons; and more recently by threatening to withdraw from the Anti-Ballistic Missile Treaty in order to build a missile defense system. Rarely, if ever, has there been such a reckless official disregard for U.S. national security or leadership failure to tell the American people about growing threats to their well-being. The Clinton administration and its many supporters in the media, think tanks, and acade­mia never seem to connect the dots between their mis­sionary zeal in Russia and the grave dangers being compounded there. In early 2000, one of the crusade's leading policymakers suddenly told us, after seven years of "happy talk," that "disasters are inescapable in the short run." He neglected to say that the disaster is unfolding in a country laden with twentieth-century devices of mass destruction and regressing toward the nineteenth century." Russia's potential for lethal catastrophies is the most important but not the only reason it still matters. Even in crises and weakness, Russia remains a great power because of its sheer size, which stretches across eleven time zones from Finland and Poland (if we consider Belarus) to China and nearby Alaska; its large portions of the world's energy and mineral reserves; its long his­tory of world-class achievements and power; its highly educated present-day citizens; and, of course, its arse­nals. All this makes Russia inherently not only a major power but a semi-global one. A "world without Russia" would therefore be globalization, to take the concept du jour, without a large part of the globe. Nor can many large international problems and con­flicts be resolved without Russia, especially in a "post-Cold War order" that has at least as much inter­national anarchy as order. From the Balkans and the Caspian to China and Iraq, from nuclear proliferation to conventional-arms transfers, from the environment and terrorism to drug trafficking and money laundering, Russia retains a capacity to affect world affairs for better or worse. On the one hand, it was Moscow's diplo­matic intervention in Yugoslavia in 1999 that enabled a desperate Clinton administration to avoid sending American ground troops to Kosovo. On the other, the 1990s also brought the passage of narcotics westward across Russian territory, a flood of illegal Russian money into U.S. banks, and growing markets for Moscow's weapons and nuclear capabilities among states that already worry Washington." And then there are the vast geopolitical ramifications of developments in what is still the world's largest ter­ritorial country. Nearly a fourth of planet Earth's pop­ulation lives on the borders of the Russian Federation, including most of its major religions and many of its ethnic identities. Many, if not all, of these nations and peoples are likely to be directly or indirectly affected by what happens in post-Communist Russia, again for bet­ter or worse-first and foremost the "near abroad," as Moscow calls the other fourteen former Soviet republics, but not them alone. Finally, there is a crucial futuristic reason why U.S. policy toward Russia must be given the highest priori­ty and changed fundamentally. Contrary to those Amer­icans who have "rushed to relegate Russia to the archives," believing it will always be enfeebled and may even break into more pieces, that longtime superpower will eventually recover from its present time of troubles, as it did after the revolution and civil war of 1917-21, indeed as it always has. But what kind of political state will rise from its knees? One that is democratic or despotic? One open to the West and eager to play a cooperative role in world affairs--or one bent on revising an international order shaped during its weakness and at its expense? One safeguarding and reducing its nuclear stockpiles or one multiplying and proliferating them among states that want them? The outcome will depend very significantly on how Russia is treated during its present-day agony, particularly by the United States. Whether it is treated wisely and compassionately or is bullied and humiliated, as a growing number of Russians believe they have been since the early 1990s. The next American president may make that decision, but our children and grandchildren will reap the benefits or pay the price.

## Russian Econ 1NC Shell

### High Oil Prices now – Russia maximizing profits

**AP 7/29** (Associated Press, “Russia’s Rosneft up 11 pct, to $2.8 Bln on stronger oil price, output”, http://www.washingtonpost.com/business/industries/russias-rosneft-up-11-pct-to-28-bln-on-stronger-oil-price-output/2011/07/29/gIQAtSJ6gI\_story.html, 2011) SV

MOSCOW — Higher oil prices and output helped Russia’s largest oil company Rosneft post an 11 percent increase in second quarter net profits to $2.8 billion. The company also said Friday that average crude oil production of the Moscow-based company went up from 2.37 million barrels a day to a record of 2.40 million barrels, boosted by strong output at the Vankor and Verkhnechorsk fields in Eastern Siberia.

### Russia is dependent on the US imports – US consumption sets market price, and makes Europe’s green leaning irrelevant

Noreng 02 (Oystein , Petropol Programme of the Norwegian Research Council, Crude Power, p. 208) OP

The position of the United States is crucial in this respect. As it is the world's largest user and importer of oil and natural gas, US taxes and duties can influence world market prices. So far, the United States has opposed any carbon taxes or gasoline taxes that would raise consumer prices. Even if the Clinton administration favoured such measures, they were almost unanimously rejected by Congress. Therefore, the Bush Jr administration's refusal to sign the Kyoto Protocol reflects a US consensus that is unlikely to change, even with a rising dependence on oil imports and at least an indirect dependence on the Middle East for oil market stability. The background is the structure of the US economy, in particular the transportation system, which makes high gasoline prices carry a larger social cost than in Europe or Japan. By refusing to tax gasoline substantially or to impose a carbon tax, the United States keeps domestic oil product prices comparatively low, and at the same time props up world market oil prices, helping OPEC. By refusing to sign the Kyoto Protocol and enter into international carbon emission permit trading, the United States, as potentially the world's largest buyer of such permits, has reduced their market value to low levels. Granting Russia higher trading quotas at the 2001 Marrakesh meeting has, with the United States absent from the market, caused further price decline, compromising the economics of measures to really curb carbon emissions or conserve energy.

### High oil prices key to Russian economic growth

**Ruehl 3** (Christof , Chief Economist For The World Bank In Russia, 8-20-03, Official Kremlin Int'l News Broadcast)

Now, the next step then is to look at the entire economy and not only look at the direct effects, but also the indirect contribution, as I explained before. To some extent, if an oil worker gets wages, he spends it on something else, so it multiplies through the economy, and to get the whole picture, one really wants to know how much of the growth of 7.2 percent is due to the increase of the oil price, which we've observed this half year, in the entire economy. You can see the calculations to this effect on Table 2, which is on page 6 of the English version and on page 7 of the Russian version. If you look at what is called Scenario 2, the middle row on this table, it has something called "Elasticity of GDP Growth to Oil Prices," which has the numbers 0.07. What this means is that we assume that an increase in the price of oil of 1 percent adds 0.07 percent to GDP growth. Now, this is very technical, but this is a number which we have calculated based on observations since 1994 on the relationship between prices of oil, exchange rate, GDP growth in a very complicated model, but this is our best estimate of this relationship. Just to get a more general picture, we have also introduced two other estimates here -- one which says that a 1 percent increase in the oil price will change GDP by 0.1 percent and one which says by a half, by 0.05 percent. But this is just as illustration. The key estimate we would have is Scenario 2. Now, what does it mean? Very simply it means that, if we take the growth of 7.2 percent for the first half of this year and we do our calculations, that 3 percent of that is the direct and the indirect effects of the change -- of the increase in the oil price. In other words, I told you that the oil price the first half year of 2003 has increased by 28 percent. Would the oil price have stayed constant, growth of Russia's economy would have been only 4.2 percent. So this is a technical, complicated procedure here, but the outcome is -- the second point I wanted to make: Looked at over time, there still is a very strong relationship between changes in the oil price and higher growth rates in Russia. If one does the calculation for the entire year 2003 and one assumes the oil price from now on doesn't change anymore but stays where it is today, then we would arrive at a growth rate of 6 percent for the entire year 2003. But the key point, the second point, I wanted to make here is that, of the 7.2 percent growth in the first year, 3 percent were due to an increase in the oil price in this first year compared to last year. Now, it's also interesting, of course -- one can make a different calculation and look backwards over the last three years and ask the same question: How much of the growth over the last three or four years was due to oil price changes? And if one does that, one comes to an interesting result. One sees that in the past, since the crisis, Russia's economy has growth faster than 5 percent only if the oil price grew at the same time. And this is the third point I want to make: In the way in which Russia's economy is currently organized, growth rates of above 5 percent will require either an increase, an additional increase, in the oil price, which in the long term is unlikely, or additional structural changes and changes in the economy so that the growth rate and the productivity of the non-oil sectors can go up. So, in other words, if GDP is to be doubled by the year 2010, that would require growth rates of 10 percent, or if it's doubled within 10 years from now, that would require a growth rates of about 7 percent. These growth rates can only come forward, they can only materialize, if either the oil price continues to increase as it did for clear reasons in the first half of this year or if the productivity of the economy goes up, which means that we need more structural change, more reforms, and so on. So, I think because this was pretty complicated, let me just sum up these three main points again. First the good news. In the first half of this year the economy has grown very fast and to a large extent this growth was in the manufacturing sector. And most importantly, investment increased quite dramatically. In an economy which in many sectors now four years after the crisis operates at full capacity that is the key to future growth. More investment which creates additional capacity and that has to some extent happened. As a result, different from 2002 in the first half of this year the direct dependency on oil has not increased anymore, remained about the same. In that sense, and that's the first point, it is fair to say that the economy has not fallen deeper into this trap of oil dependency.

### Russian economic decline causes nuclear war

Filger, 9 [Sheldon, correspondent for the Huffington Post, “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.

## Glut 1NC Shell

### Renewables trigger a deliberate price collapse that destroys host economies, our competitiveness and turns the case.

Longmuir and Alhajji 07 (Gavin Longmuir, Stanley, NM-based consulting pertroleum engineer, and AF Alhajji, Energy economist and associate professor at Ohio Northern University, "Need for a Balancing Act: Reducing Oil dependence Without triggering A Global Crisis", Middle East Economic Survey, 2/26/07)

The paradox of today’s quest for energy independence is that pursuing it actually increases energy insecurity. However much politicians who call for energy independence might prefer it otherwise, the market has chosen oil as a staple energy source. So governments should ignore neither the valid interests of oil exporters, on whom consumers in their countries depend, nor exporters’ reaction to the rhetoric of energy independence or to steps taken to achieve it. Isolationist politicians may not care about other countries, but they should think twice lest they harm their own. The biggest threats to the world’s energy security are not terrorist attacks or embargoes by oil-producing countries – short-term events that can be dealt with quickly and effectively through various measures, including reliance on strategic petroleum reserves, increases in production, and diversion of oil shipments. Instead, the main threat to the long-term sustainability of energy supplies is the mismatch between investment in additional capacity and energy infrastructure, on one hand, and growth in demand for energy on the other. Major oil exporters could respond in a variety of ways to political posturing on energy, most of which would exacerbate rather than ameliorate the global energy situation. One of the most plausible scenarios in response to calls by governments and politicians around the world to reduce or even eliminate dependence on oil is a relative decline in investment in additional production capacity in the oil-producing countries. An energy crisis in this case is almost certain if those who press for energy independence fail to provide a workable alternative in a timely manner. Of course, these efforts will almost surely fail to replace oil within a reasonable time, as they are not market-driven and require heavy subsidies. Indeed, confronted by political leaders’ hostile rhetoric, oil producers have a strong incentive to increase production in order to lower oil prices to levels that undermine the economic feasibility of alternative energy sources – a logical interventionist policy to counter the anti-oil interventionist policies of consuming countries. After all, a collapse in oil prices would be a death sentence for several new energy technologies, and, not incidentally, would increase demand for oil. Even if the oil producing countries do not intentionally bring about an oil price collapse, they might accelerate production as much as they could in the short term, while oil still had some value. But lower oil prices, coupled with expectations of a decline in demand, would in turn put pressure on oil-producing countries to reduce planned investments in production capacity or even to mothball major projects, as they have done in the past, leading to a decline in oil supplies. Thus, if alternative energy technologies did not come on-line by the time oil production started to fall, global shortages would become inevitable, while closing the investment deficit would take years, even in the face of rising oil prices. In spite of these possibilities, let’s assume that plans for energy independence succeed, and that several European countries, the United States, Japan, China, and India become self-sufficient. Major oil exporters could then seek to use their now less-valuable oil at home as cheap fuel for an expanded heavy industrial sector. Instead of exporting oil directly, they could export their energy embedded in metals, chemicals, and manufactured products at prices that undercut anything producers in the oil-consuming countries, especially Europe and the US, could match, given their dependence on higher-cost alternative energy sources. Energy independence thus could destroy entire industries, especially petrochemicals, aluminum, and steel. In fact, cheap energy in oil-producing countries might make their new industries competitive with those in China, India, and Southeast Asia. The net result would be a loss of jobs and weakened economies. Countries might end up energy-independent, only to become steel-dependent or petrochemical-dependent. So what would come next? Would politicians, with their perpetual fascination with “independence,” attempt to eliminate dependence one commodity at a time? Put another way, would the cause of “energy independence” seek to reverse globalization? Oil is a finite resource. Only long-term, market-oriented, economically viable, and sustainable energy options can ensure economic growth in both producing and consuming countries. Isolationist policies, by contrast, always lead to shortages and discontent. No matter how energy independence is pursued, it will never amount to anything other than an unattainable – and potentially dangerous – fantasy.

### Turns case – Low Oil prices perpetuate dependency and blocks the transition to renewables

Walt, ‘8 – Time business writer [Vivienne, TIME, “OPEC wants you to pay more for gas,” http://www.time.com/time/business/article/0,8599,1852607,00.html, DS]

For many consumers, the only silver lining on the global financial crisis has been the falling oil price it has precipitated. But OPEC is determined to put an end to the relief at the gas pump. Concerned to protect their countries' financial health, oil ministers from the 13 members of the cartel of oil-producing countries meet in Vienna on Friday with only one item on their agenda — cutting their oil output in order to drive up world prices. Oil prices have been slashed by more than half in just three months, from $147 a barrel in July to as low as $67.50 a barrel on Wednesday. That has prompted current OPEC president, Algerian Oil Minister Chakib Kjelil, to propose that the group cut up to 2 million barrels from its daily 32-million barrel output, hoping to push the price back up to about $90 a barrel. The effect would be to raise prices in the U.S. and Europe, just when Western leaders are scrambling to soften the landing of their slowing economies. OPEC's proposal, fumed British Prime Minister Gordon Brown last Friday, "is absolutely scandalous." Never much loved outside of its member states, OPEC is a convenient whipping boy for leaders responding to consumer pain, but oil analysts say it may not deserve all the blame. Its members have certainly earned mammoth windfalls from rocketing oil prices over the past year, but some face the prospect of domestic political upheaval if oil prices fall too low. The recent windfall has, for example, given Iran — OPEC's second-biggest oil producer — a cushion to neutralize the impact of Western sanctions over its nuclear program, and to ameliorate the effect of a struggling economy. But because Iran imports crucial refined diesel to keep its cars and factories running, it needs to sell its crude oil for $60 a barrel or more, according to oil analysts. So, President Mahmoud Ahmadinejad has plenty of incentive to push his OPEC colleagues to vote for production cuts: If falling prices force his government to cut its heavy gasoline subsidies, he won't help his chances of reelection in a tough presidential race next June. "There is a lot of popular unrest when they cut subsidies or put on gas quotas," says Robert Johnston, Director of Energy for the Eurasia Group in Washington. For similar reasons, Venezuela President Hugo Chavez wants OPEC to cut production by about 1 million barrels a day, warning that his country would face dire economic problems if oil prices continue falling. The needs of gas-guzzling Western nations, however, are exactly the opposite. Ironically, though, a falling world oil price negates the goal stated by Barack Obama and John McCain to cut America's dependence on foreign oil, especially from the volatile Middle East. That's because although it only accounts for about one-fifth of U.S. imports, oil from Saudi Arabia, Kuwait and other Middle Eastern countries is much cheaper to produce than the more politically popular alternative of oil drilled in Canada or the United States. Even more than the lower prices, OPEC leaders have been jolted by the lightning speed with which they have tumbled. But their influence over prices is more limited than many in Western countries believe, or OPEC members would like: OPEC members, in fact, produces only one-third of the world's oil; the rest comes from Canada, Russia, Mexico, and several smaller countries. The cartel sets production quotas for each member, but those are routinely violated by bigger players, like Saudi Arabia, whose well usually have spare capacity. "We saw that when prices went up to $145 a barrel OPEC was helpless," says Fadhil Chalabi, executive director of the Center for Global Energy Studies in London, who was an OPEC official during the last global oil crisis of the 1970s. Nor did they anticipate the sharp fall in demand which has helped send the price of their oil plunging. "This is not like the 1970s," says Chalabi. "OPEC has become a price-taker, not a price-maker." Still, if taking a couple of million barrels a day off the market has its desired effect, OPEC will once again be cast among the villains of the current economic downturn.

## DA Turns Case

### Low Oil Prices acts as disincentive for renewable energy

**The Hindu, ‘8** – India’s largest newspaper [12/22/2008, The Hindu, “A silver lining,” http://www.hindu.com/2008/12/22/stories/2008122255411000.htm, DS]

On Thursday December 18, a day after the petroleum cartel OPEC decided to cut production by an unprecedented 2.2 million barrels a day, oil in the international markets was ruling close to the lowest level in four years. At the most obvious level, it seemed to indicate the helplessness of the cartel to shore up the sagging oil prices that have plummeted from a record $147 a barrel in July to below $40 very recently. OPEC controls almost 40 per cent of the global oil supplies and its latest decision follows a move in September to reduce supplies by 2 million barrels a day. The cartel’s inability to influence oil prices is further illustrated by the fact that two important non-OPEC countries — Russia and Azerbaijan — have also joined in the moves to restrict supplies: together they have pledged to cut output by 600,000 barrels a day. As the global economy is sliding into a sharp downturn, the demand for fuel has declined rapidly. High fuel prices have deterred consumers in the West where alternative energy sources have become popular. OPEC has acknowledged that crude supplies entering the market are far in excess of actual demand and that the stocks in the OECD countries are well above their five-year average and are expected to rise further. High inventories with major consuming nations constrain the ability of OPEC to manipulate prices. It is clear that cartelisation is unlikely to yield the intended results at least for now. For many countries, falling oil prices is the only silver lining in a bleak global economic scenario. In India the relentless upward march of oil prices until July posed serious threats to macroeconomic stability. The dramatic decline since then is one of the major factors driving down inflation to tolerable limits. However, India and the rest of the world would welcome a more stable price regime and not just low oil prices. It is the extreme volatility magnified by dire predictions that caused great damage. Consumers and producers including OPEC would be better off in agreeing to certain ground rules. One suggestion has been that they agree on a realistic price band for petroleum and a mechanism to administer it. The fall in oil prices has not been an unmixed blessing. Several oil producers including Venezuela and Iran require a higher level of prices to continue with their planned expenditure. Low oil prices have acted as disincentives to more expensive exploration for oil, to adopting alternative energy sources, and to highly desirable conservation.

### Low Oil Prices block the transition to Renewable energy

Murray, 7/1 – writer for Analysis Online, citing Joseph Kalt, professor of International political economy at Kennedy School of Government at Harvard [Bruce, 7/1/2011, Analysis Online, “Coping with the hard truths of energy economics,” http://analysisonline.org/site/aoarticle\_display.asp?sec\_id=140002434&news\_id=140001490&issue\_id=3, DS]

But there must be a technological solution to this problem, many would plead. But even with massive investments and government subsidies in alternative fuels, the world cannot avoid the growth in demand for fossil fuels, Kalt said. A primary problem with alternative energy sources is the capital required to develop them. Alternative energy sources tend to be capital intensive and require massive research, development and construction of entirely new infrastructures. Developing and deploying a new energy infrastructure to replace fossil fuels would require legions of engineers, laboratories, machinery, steel, and other human and physical capital. "It would take huge amounts of capital to replace 86 percent of our fuels,” Kalt said. “To really have solar power to replace coal would require something on the magnitude of putting solar panels across the entire state of Nebraska.” In developing countries, where capital is scarce, developing the new technologies is even less feasible. The price of capital investment, coupled with the relative abundance of fossil fuels, conspire to make development alternative energy sources economically unfeasible. Also, the volatility of energy markets works against investment in alternatives: When oil prices are high, alternative energy sources become economically attractive and invite investors. But a sudden drop in prices can quickly wipe out investments. Because there is so much oil concentrated in the hands of a few producers, they are able to exercise market power, manipulate supply and thus manipulate prices. "Just when you think you are on the verge of a technological breakthrough; just when you have put your investment in new technology and a great alternative, the oil producers can zap you by flooding the market with low-cost fuel, and take away your profit,” Kalt said.

## Status Quo Solves

### High Energy prices set energy policy more effectively than government action

Marotta, ‘4 – writer for San Francisco Chronicle [David and George, 8/18/2004, San Francisco Chronicle, “Fear not – There’s a silver lining to high oil prices,” http://articles.sfgate.com/2004-08-18/opinion/17439976\_1\_oil-prices-high-oil-prices-decrease, DS]

The good news is that high oil prices are beneficial in the long term. Without any coercion, high prices set energy policy more effectively than any government action. High prices decrease the use of oil. As gasoline prices increase, marginal driving will be reduced, and carpooling and use of public transit will increase, and people will use their bikes and even walk more. Higher oil prices will foster conservation. They ensure that the oil we use will be directed to the most valuable purposes. Reduced oil consumption means reduced pollution. Higher oil prices will encourage alternative-energy development. As the price rises, the extraction of oil from shale deposits may become competitive. The increased use of ethanol made from U. S. agricultural crops such as corn would be a boon to our domestic farmers. Wind and hydroelectric power will become more competitive. Development of solar energy will ensue. We might even be encouraged to rethink our negative attitudes toward nuclear-generated power, on which France relies so heavily. Higher oil prices will encourage the production of fuel-efficient cars, including hybrid cars. The domestic and foreign production of such cars (which use both gasoline and batteries) can hardly keep up with the present increased demand. At present, the U.S. government must subsidize billions on research to try to develop efficient and pollution-free hydrogen engines for automobiles. Higher oil prices will naturally make this research cost effective. Higher oil prices will encourage more domestic-oil production. The disadvantages of taking more oil from the north slope of Alaska will have to be balanced against our heavy dependence on unstable Middle East oil supplies that jeopardizes our national-security interests. If federal, state and local governments want to help car owners, they could reduce the high taxes on gasoline, which in some areas equal one-quarter of the cost of a gallon of gas. Gasoline taxes are a regressive tax. Poor families pay a higher percentage of their income on these consumption taxes than do the wealthy. Overall, however, the higher cost of oil provides the negative feedback that will decrease consumption and encourage either alternative or additional production. Markets are brilliant in their ability to determine the optimal value and use of limited resources. Let the free market work its magic.

### High oil prices catalyze a popular transition to renewables

Dorning, 3/17 – reporter for Bloomberg News [Mike, 3/17/2011, Business Week, “For Obama, High Oil Prices Have a Green Lining,” http://www.businessweek.com/magazine/content/11\_13/b4221037244553.htm, DS]

When gasoline prices go up, Presidential approval ratings historically go down. So the current occupant of the White House is offering sympathy to drivers suffering sticker shock at the pump and publicly ruminating about releasing oil from the nation's strategic reserves. "For Americans already facing tough times, it's an added burden," Barack Obama said at a Mar. 11 news conference. Still, there's a silver lining in higher oil prices—or, rather, a green lining—for Obama, who has made clean energy one of his paramount causes. Rising fuel costs could go a long way toward advancing Obama's "Win the Future" vision of an economy remade by green technologies, including electric vehicles, advanced batteries, wind and solar power, and high-speed trains. "If you want to make people switch toward cleaner energy sources," says Nigel J. Gault (IHS), chief U.S. economist for IHS Global Insight, "you need to change the price incentives people are facing. One way to do that would be to make traditional energy much more expensive." Take electric vehicles. Obama set a goal of putting 1 million on the road by 2015. Based on the $2.66 per gallon average price of unleaded regular gasoline at the beginning of last year, it would take 10 years to break even on the cost of an electric Nissan Leaf and home charging station, compared with a comparable gasoline-powered car. That's even factoring in federal tax breaks. The Leaf is a better deal now: At the $3.54 per gallon national average on Mar. 10, a typical car buyer would break even in seven years and save almost $6,000 over 12 years, according to Bloomberg New Energy Finance. Truth be told, higher prices are what it takes to change the energy consumption habits of large numbers of Americans. "Somehow we have to figure out how to boost the price of gasoline to the levels in Europe," Energy Secretary Steven Chu told The Wall Street Journal in 2008 when he was director of the University of California's Lawrence Berkeley National Laboratory. Chu has backed away from that view since taking office. Higher energy prices are precisely what Obama's proposed cap-and-trade legislation to control carbon emissions would have achieved. Had it passed Congress, the system of tradable permits would have raised the cost of carbon-generating fossil fuels, making clean energy sources more competitive. Unlike limits on carbon emissions, higher oil prices don't directly boost alternative power-generating technologies such as wind and solar energy. Oil is used to generate less than 1 percent of U.S. electricity, which is mostly produced by coal, natural gas, and nuclear energy. Still, over time, greater use of electric vehicles and hybrids could make a difference. "If you start substituting electricity for gasoline, it does transfer," says Martin Lagod, managing director of Firelake Capital Management, a $400 million clean-energy investment fund. Only perceptions of a sustained change in gasoline prices will shift consumer car-buying habits. After all, the savings from driving an electric, hybrid, or fuel-efficient conventional automobile are spread over many years. The timing of this price surge early in the expansionary phase of the business cycle may be propitious, says Mark Zandi, chief economist at Moody's Analytics (MCO). It jolts consumers out of complacency after the recessionary ebb in oil prices. "The higher oil prices are, the more viable alternative energy and conservation efforts become," says Zandi, who predicts oil, trading at $97.98 on Mar. 16, will average $125 per barrel in five years. Obama made a similar point during the Mar. 11 news conference, arguing that the jump in prices provided new justification for his energy initiatives. "When prices go back down, we slip back into a trance. And then when prices go up, suddenly we're shocked," Obama said. The White House is not overly concerned that the runup in oil prices to date will cause major damage to the economic recovery. The President's advisers are telling him a $10-a-barrel increase will cut between 0.2 percentage points and 0.3 percentage points from 2011's economic growth, a senior Administration official says. Since the 1970s, the nation has become much less vulnerable to oil price shocks as the economy shifts away from manufacturing and businesses become more energy efficient. Energy consumption per real dollar of U.S. gross domestic product is more than 8 percent lower than in 2005 when Hurricane Katrina disrupted supplies, according to the U.S Energy Information Agency. That's not to say the White House is privately celebrating. Americans already are feeling pinched, and motorists are reminded of gas prices each time they fill their tanks. From Richard Nixon during the 1973 OPEC oil embargo to George W. Bush after Katrina, many a President has seen his popularity decline after sudden oil price jumps. Obama's own job approval, which had been rising since mid-December, reversed direction in early February and began declining as gas prices rose. Mississippi Governor Haley Barbour, who is mulling a run for President in 2012, says Obama's policies "have been designed to drive up the cost of energy." That's not quite right. Three months before the last presidential election, Obama called for tapping the Strategic Petroleum Reserve to bring down gasoline prices, which had recently reached $4.11 a gallon. In the current price runup, Obama seems less willing to release oil from the reserve, but his hand may yet be forced. Obama the policy wonk understands the value of higher gasoline prices in curbing climate change and cleaning up the environment. Obama the politician appreciates the peril that high oil prices present to his standing with voters. The bottom line: If Obama releases oil from the U.S. Strategic Petroleum Reserve, he may delay progress on his green energy goals.

### High Oil Prices will result in a popular transition away from Fossil Fuel use

Gori, ‘8 – independent public relations practitioner [Fred, 6/25/2008, Business Daily, “Kenya: There is a silver lining in High oil prices,” Lexis, DS]

Soaring crude oil prices have had a domino effect on virtually every commodity, pushing them to an all time high. Working class people are feeling the pinch, with many adopting austerity measures. Higher oil prices are to be expected in the long term and individuals have to be prepared to pay more for the costs that results from it. We simply can't run away from that fact. The solution however, is not to organise consumer demos or demand tax breaks to maintain the status quo, but to scale down our consumption and think about post-oil technologies. Yes, post oil because "black gold" is finite and someday we'll have to do without it. But amidst the dark clouds of rising crude oil prices, there is a silver lining. It so happens in life that every negative event has a positive twist about it. The oil crisis is bringing home a fundamental truth, the kind that politicians of every hue don't want you to hear: crude oil is finite. As more people enter the high consumption bracket, there is going to be growing pressure on these resources. The emergence of China and India as major consumers of oil, however, has thrust the oil threshold upon us sooner than we expected. One of the immediate beneficiaries are the poor farmers who will be able to bargain for better prices as the government stocks up to avert a food crisis in the country. This might be at the expense of the urban poor, some of whom spend more than half their monthly income on food. In the medium to long term, there is no more powerful way to spur conservation and innovation than high fuel prices. And this is not just for policy makers but also for ordinary men and women who because of their vulnerability suffer the consequences most. One of the things we are bad at in this country is conservation. Whenever we feel there is a lot of anything we waste it. The current inflation has forced families to rethink their consumption patterns. Households are using far less of utilities than they used to a year ago. But conservation, great as it is, can only be dependent on availability of resources, which leads us to innovation. Some of the greatest ideas that have revolutionized human life were borne out of extreme difficulties and calamities. The public and private sector must now invest in post-oil technologies. This is urgent if we must prevent civilization from collapsing under the weight of our greed and fear of change.

### High prices key to renewables – forces public shift

Clayton, ‘7 – staff writer of the Christian Science Monitor [Mark, 6/11/2007, Christian Science Monitor, “To some, high gas prices have a silver lining,” Lexis, DS]

When Jim Cunningham pulls into a gas station, his fondest hope is that prices will have risen. Instead of $3.25 a gallon, he'd rather pay, well, $4 a gallon - or more. "I just like the positive impact high gas prices are having on public consciousness - like getting people to buy more fuel-efficient cars," says the industrial-package designer in Denver, who spends $50 to fill a gas guzzler that he hopes to unload soon. Hank Leukart, a Seattle travel writer, pays about four times more for gasoline today than he did nine years ago. But "I love high gas prices," he wrote in a blog essay last year. In the long run, "high gas prices have so many good repercussions [in the form of less traffic, accidents, air pollution and a boost for renewable fuels] that the temporary loss of expendable income seems worth it." Such views aren't limited to drivers. Across the American landscape, a sprinkling of economists, authors, bloggers, and pundits are making the case that there's a silver lining to high gasoline prices. Instead of pain at the pump, they see payoffs: less traffic, fewer accidents, reduced air pollution, better efficiency, more reliance on renewable fuels, and less dependence on foreign oil. While most motorists may wonder whether these iconoclasts are sitting at the wrong end of the tailpipe, they're nevertheless reviving debate over a long-dormant idea - boosting federal gas taxes so that pump prices stay high. Permanently. "People use vehicles less or buy smaller, more efficient cars the longer prices stay high," says Ian Parry, an economist at Resources for the Future, a Washington think tank. "They put greater demand on manufacturers to produce more fuel-efficient vehicles, which, in turn, cuts oil use and reduces greenhouse-gas emissions." Of course, there's a downside. High gas prices act as a drag on the economy. The more they rise, the more consumers have to spend on fuel and the less they have to spend on other goods and services. The effects are also uneven. People who drive a lot and the poor feel the pinch more than the average consumer. Such costs are regrettable, high-price proponents say, but pale in comparison to the gains that can be had - and can be somewhat compensated by federal tax rebates. The key, they say, is to keep gas prices high enough long enough to force permanent change. That didn't happen in the last price spike. After soaring in the 1970s and early 1980s, gasoline prices plummeted due to expanding supply. Falling prices torpedoed public support for further fuel efficiency.Today, the US auto fleet is less efficient: 25.4 miles per gallon versus 26.2 m.p.g. in 1987. "Had we been able to keep gas prices up throughout the 1980s, the nation would be far more fuel-efficient today," says Frank Zarb, who was the president's chief energy adviser during the Ford administration, now managing director at Hellman & Friedman LLC,, a private equity firm. The backsliding could happen again, some analysts warn, if gas prices plunge. Under pressure from competitors and Congress, US automakers say they will produce more high-mileage models. High gas prices may not only be desirable, but vital, says John Sterman, a professor at the Sloan School of Management at the Massachusetts Institute of Technology in Cambridge. A recent study he co-wrote found that sustained high gasoline prices are a critical factor in developing US markets for alternative-fuel vehicles. But prices would need to go up to and remain at European levels of $4 to $5 a gallon, he says. In the US, however, gas prices typically soar, then sink back - but to levels higher than before. That lulls the public into feeling price hikes are temporary despite the long upward trend, economists say. To ensure that gas prices send a long-term "price signal" to consumers and industry, some economists are calling for a gasoline tax of 50 cents to $1 per gallon - on top of today's 18 cents per gallon federal tax. Revenues from such a tax could be used to develop new energy technologies, with most of it returned to US taxpayers in the form of income-tax refunds. Such a tax would hit those that drive more miles for work and low-income drivers the hardest. Even so, economists say it should be possible to target refunds to them. "There is indeed a bit of a silver lining to higher gas prices all by themselves," says N. Gregory Mankiw, an economics professor at Harvard University and former chairman of the President's Council of Economic Advisers from 2003-05. "But high prices by themselves are not as attractive as if those prices are higher because of taxes - because unlike our government, the Saudis aren't going to give you a tax rebate." Energy-security experts say a gas tax could in the long run replace some of the costs taxpayers already pay - but don't see at the pump - to maintain military forces that keep global oil lanes open. Yet the gas-tax idea is a "third-rail" for most politicians, who fear nobody would support it. Well, maybe not nobody. A February 2006 New York Times poll showed 85 percent of Americans opposed a gasoline tax, but 55 percent favored it if it would cut reliance on foreign oil, and 59 percent supported it if it would help curb global warming. "It's like tough love," says Mr. Cunningham in Denver.

### High Oil Prices reveal oil dependence – shift away kills food production

**Mark 6** (Jason Mark, AlterNet Co-author, “Will the End of Oil Be the End Of Food?”, http://www.alternet.org/story/41023/?page=entire, August 31, 2006) SV

For farmers like Randall, today's challenges may be tomorrow's crises. The problems of coping with high oil prices reveal how utterly dependent our food production system is on nonrenewable fuels. As long as oil is plentiful, that dependence isn't a concern. But in some circles fears are growing that if global petroleum production begins a steady decline, our entire food system will be strained, testing our ability to feed ourselves."How dependent on oil is our food system?" Richard Heinberg, a leading "peak oil" scholar and the author of The Party's Over: Oil, War and the Fate of Industrial Societies said in an interview. "Enormously dependent. Fatally dependent, I would say." Of course, you won't find any oil on your dinner plate, but petroleum and other fossil fuels are inside of every bite you eat. About one-fifth of all U.S. energy use goes into the food system. The synthetic nitrogen fertilizers that are essential for high crop yields are a byproduct of natural gas. Gasoline and diesel fuels power the combines that rumble through the grain fields. Countless kilowatts of electricity are burned up in the factories that process all of the packaged goods that line the supermarket shelves. And then there's the gasoline required simply to get food to market. We now have a globalized food system, one in which the typical American meal travels 1,500 miles from farm to fork. Organic products -- though they may have a more sustainable veneer -- are in many respects no different; 10 percent of organic products come from abroad. Without oil, we would all be on one harsh diet. "We've created an agricultural system where, on average, for every energy of food calorie we produce, we need to expend about 10 calories of fossil fuels," Heinberg said. Such an imbalance would not be worrisome if there were an inexhaustible supply of oil. But, as every child learns in elementary science class, petroleum is a nonrenewable resource. A heated debate is under way about when that resource will begin to decline. Some say that we have already passed the summit of peak oil and point to a leveling of global petroleum production as proof. The U.S. government argues that we have decades before oil extraction begins to decline. Others calculate that we will hit the peak oil mark sometime in the next 10 years. Regardless of when exactly oil production starts to drop, it's clear that in this century humanity will have to learn to live without cheap, abundant oil. What this means for our food system is also up for debate. At the very least, costlier oil will lead to more expensive food, especially for processed and packaged goods. At the very worst, peak oil could seriously disrupt agriculture, especially in highly industrialized nations like the United States, where food systems are heavily reliant on oil. "This era of increasing globalization of our food supply is going to draw to a close here in the next decade or so," Ronnie Cummins, executive director of the Organic Consumers Association, said. "I think it (eventual oil scarcities) is going to mean the end of importing billions of dollars of food from overseas. It's going to mean the end of relatively cheap food in the U.S. And it's going to mean a significant increase in starvation and malnourishment across the world."

# Uniqueness

## Prices High Now---Saudi Arabia

### Oil prices high now – Arab Spring has shot the supply

Wharton 3/16 - business school of UPenn [3/16/2011, Knowledge@Wharton, “Crude Reality: Why High Oil Prices Are Here to Stay,” http://knowledge.wharton.upenn.edu/article.cfm?articleid=2732, DS]

Oil prices swung wildly this week, rising to near 30-month highs after Saudi Arabia sent troops to Bahrain, then plummeting to less than $100 a barrel on expectations that an earthquake-ravaged Japan would demand less oil. The ride is not over yet, say economists and Wharton professors: There may be ups and downs, but long term, high oil prices are here to stay. On top of volatility caused by natural catastrophes and political upheavals, a tight oil supply and increasing demand promise to keep driving prices up steadily over time. Prices could fluctuate between $60 to $200 a barrel, but probably will not go back to $30 or $50 anytime soon, says Wharton management professor Witold Henisz. Higher prices "are going to be part of the environment for the next few years. There just isn't a lot of surplus oil." Supply and demand are just part of the equation: Fear of a future squeeze also drives prices higher than they should be. That is not good news for a fragile economy struggling to reemerge from a crippling recession, but most experts are not predicting a double-dip just yet. That would require a sustained period of oil prices north of $125 a barrel -- or another disaster in an oil-rich part of the world. The fallout from the 8.9-magnitude earthquake and tsunami in Japan has added to oil market confusion. "Oil prices are being pulled in two opposite directions," says Bernard Baumohl, chief global economist at the Princeton, N.J.-based Economic Outlook Group and author of The Secrets of Economic Indicators: Hidden Clues to Future Economic Trends and Investment Opportunities. "The disasters in Japan are pulling prices down in anticipation of slower Japanese growth in the short term, and because their oil refineries are damaged and thus [they] will order less crude oil. Lifting prices higher, however, is the civil unrest in Bahrain now that Saudi Arabia and other Gulf nations have sent troops into Bahrain. The net result will still be higher oil prices because of the fear that Saudi Arabia is now completely encircled by countries that are unstable. Expect oil to remain in triple digits and gasoline prices to stay above $3 for the rest of the year." Every $10 increase in price per barrel translates into about a 25-cent increase per gallon of gas. Before the Japanese earthquake, the U.S. Energy Information Administration forecast a gallon of gas to average $3.56 in 2011, with a 25% chance that gas could top $4 during the summer. Every penny increase in gas prices drains $1 billion out of the economy each year, according to Baumohl. At this point, rising oil prices are "not having a material effect on the economy," he says, but "once gasoline prices begin to exceed $4 per gallon, the stress becomes greater." If gas prices increased to $4.50 per gallon for more than two months, it would "pose a serious strain on households and could put the entire recovery in jeopardy. Once you get above $5, [there is] probably above a 50% chance that the economy could face a downturn." That is not likely to happen unless there is a major disruption in Saudi Arabia, notes Wharton finance professor Jeremy Siegel. Based on the amount of oil the U.S. imports, every $10 increase in the price of oil equates to about a quarter of 1% of the country's gross domestic product (GDP), he says. That isn't enough to send the economy into freefall. "If oil stays at its current level, it won't produce a recession," he predicts. Even if oil prices do keep rising, the pain probably will not be as severe as the oil shocks of the 1970s, according to Siegel. In the first place, the energy intensity of the U.S. economy -- that is, the energy required to produce $1 of GDP -- has fallen by 50% since then as manufacturing has moved overseas or become more efficient. Also, the price of natural gas today has stayed low; in the past, oil and gas moved in tandem. And finally, "we're closer to alternative sources of energy for our transportation," Siegel says, "which would be accelerated if oil really moved up." 'Oil Has Lagged' Short term, there is little the government can do to mitigate the impact of rising oil prices on the economy. Wharton experts agreed that rising oil prices are not enough of a reason to tap into the U.S. Strategic Petroleum Reserve, a cache of 727 million barrels of oil stashed in man-made salt domes in Texas and Louisiana. In recent weeks, both Democrats and Republicans have called for the government to consider using some of the reserve to help ease gas prices. The government "definitely shouldn't do that," even if prices rose above $150 a barrel, says Wharton finance professor Franklin Allen. The Reserve was designed as an emergency fund in the case of a sudden disruption in oil supply, not as a way to mitigate oil prices, he notes. "It's a month supply. If something drastic happened in Saudi Arabia, it would be for that. They shouldn't touch it now." Fighting rising oil prices with monetary policies is also tricky. The Federal Reserve on Tuesday chose to take no action in response to oil prices, calling the rise "transitory." "Commodity prices have risen significantly since the summer, and concerns about global supplies of crude oil have contributed to a sharp run-up in oil prices in recent weeks," the Fed said in a statement on March 15. "Nonetheless, longer-term inflation expectations have remained stable, and measures of underlying inflation have been subdued." That is probably the right move, according to Wharton finance professor Richard Herring. "The 1970s taught us that trying to facilitate an oil price increase via inflation just doesn't work. It could lead to stagflation," he says. "If it's a real change in the price of oil, there's not much we can to do combat it." Herring is surprised that oil prices have not actually gone higher, given continued demand for oil from emerging markets. Over the past decade, rapid growth in Asia has fueled an increased need for all sorts of commodities, from copper and silver to agricultural products. "They've all gone up a lot more than oil," Herring points out. "You could actually make the case that oil has lagged." The long-term demand for oil is unlikely to slow down, he predicts. "Once you start putting two billion more people on the roads, as we are in India and China, even if they use just a fraction of the energy we do, it's bound to be a huge impact on the market." Oil prices today behave differently than they did 15 years ago, according to Robert Ready, a Wharton Ph.D. student who studies the oil futures markets. In the past, a natural disaster or political turmoil might drive oil prices up momentarily, but there was always enough global supply to compensate; if one oil-producing nation went offline, another would step in to meet global demand. "In the last 10 years, there [hasn't been] enough oil supply to respond to a change in price," says Ready, who will become a professor of finance at the University of Rochester's Simon Graduate School of Business in July. According to Ready, when discussing oil markets, supply does not refer to how much oil is left in the ground, but how much oil can be produced at any given time. After increasing for several decades, total world oil production has been roughly flat since 2004. Since then, oil prices have behaved differently: They tend to go up and stay up. "In the past, if they went up, you would expect them to go back down -- but they don't go back down anymore," he notes. "At some point, there just wasn't enough production to keep up with increasing demand." An Unpredictable Future Embedded in the most recent spike are **fears of a future drop in supply,** stemming largely from social unrest in North Africa and the Middle East. Chris Lafakis, an economist at Moody's Analytics who specializes in energy, calculates that "the fundamental price of oil should be $93 to $94" based on naked supply and demand. But due to uncertainty in so many oil-producing countries, his forecast for 2011 has the price of oil hovering around $98 a barrel, which includes the fundamental price plus a $5 per barrel "uncertainty premium" that he expects to evaporate when crises resolve. The problem is that nobody knows when that will be. The political upheaval that began in February in Tunisia and led to the ouster of Egypt's President Hosni Mubarak has thrown a question mark over the entire region. Ongoing rebellion against dictator Muammer Gaddafi has disrupted oil production in Libya, which pumped out 1.6 million barrels each day before the crisis hit. Fears about further instability in the region increased Monday after Saudi Arabia and the United Arab Emirates sent troops to quell protests in Bahrain, increasing tensions with Iran. Saudi Arabia, the world's largest oil producer, is still working to stave off its own protests: a "Day of Rage" scheduled for March 11 fell flat, but another is planned for March 20. Escalation of unrest could cause prices to spike, according to Lafakis. If oil production were to shut down in Libya, Bahrain and Yemen, for example, the price could jump to $125 per barrel. Take out half of Iranian production, and the price jumps to $150. "And if we lost half of Saudi Arabian production, the price would go to $200 overnight," Lafakis says. "These are low probability events. But they would have catastrophic consequences." Any predictions about what will happen next are "pure speculation," says Howard Pack, a business and public policy professor at Wharton and co-author of The Arab Economies in a Changing World. "This story is in its early stages," he notes. "It's all very unpredictable." Arab countries are buckling under a bulge of college-educated youth who can't find jobs and are frustrated with stagnant autocracies. But even if popular uprisings overthrow current regimes, new leaders may not know how to move the countries forward. It is not clear, for example, whether Egypt's military will take on the types of economic reforms that the country needs. "These countries with new governments might end up looking more like Eastern Europe from 1990 to 1996 [after the fall of Communism in the region], when GDP went down by 30% to 40%," Pack points out. The earthquake in Japan has thrown another puzzle piece into the mix. Japan is the world's third-largest oil consumer behind the United States and China, and the world's second-largest net importer. The devastating earthquake and tsunami that hit Japan on March 11 shut down a quarter of the country's refining capacity and 11 of its 54 nuclear reactors, according to Reuters. Workers are still scrambling to stabilize four damaged reactors at the Fukushima Daiichi nuclear complex in northeastern Japan. In the immediate aftermath of the catastrophe, Japan's demand for oil will probably go down, Pack predicts. But longer term, a backlash against nuclear energy -- in Japan and beyond -- could drive oil prices back up again. "There may be more reluctance to have nuclear power plants," Pack says. "That could have a very big effect on demand." Oil pundits wonder what is coming next. Wharton's Henisz, who has studied oil company initiatives to improve community relations in several African nations, is keeping an eye on other oil-rich countries. "We're all focused on the Middle East and North Africa, but a lot of the same conditions exist in Equatorial Guinea, Angola and Nigeria," he points out. "I'm not saying they're going to go like dominoes, but it takes uncertainty about [just] one of them to create a real problem."

## Prices High Now---Russia

### High Oil Prices now - Rofneft

**Stock Market Wire 7/29** (Stock Market Wire, United Kingdom Stock Market Observing Site, Rosneft net income up 34.2%, http://www.stockmarketwire.com/article/4193474/Rosneft-net-income-up-34-point-2pct.html, 2011) SV

Russia oil giant Rosneft's first half net income rose by 34.2% to $6,773m. Revenues were up 43.7% at $43,397m and earnings before interest, tax, depreciation and amortisation rose by 30.5% to $11,986m. Operating income increased by 39.5% to $9,088m. Rosneft's average crude oil output - including production by subsidiaries and its share in production by affiliates - increased by 2.7% year-on-year, to 2,362,000 barrels per day.

## Prices High Now---Oil Companies

### High Oil Prices now – Oil Companies maximizing profits

**Kahn 7/29** (Chris Kahn, The Associated Press, High oil, gas prices lift Chevron 2Q profit 43 pct, http://www.ajc.com/business/high-oil-gas-prices-1057155.html, 2011) SV

NEW YORK — Chevron Corp. said Friday that profit jumped 43 percent in the second quarter as higher oil and gasoline prices made up for a decline in oil production. The report continued the trend of soaring profits among the major oil companies. The San Ramon, Calif. oil company reported earnings of $7.7 billion, or $3.85 per share, for the three months ended June 30. That compares with $5.4 billion, or $2.70 per share, in the year-ago period. Revenue increased 31 percent to $66.7 billion. Analysts had expected earnings of $3.51 per share, according to FactSet. Chevron's quarterly profit was the largest since it set a company record of $7.9 billion in the third quarter of 2008. It followed similar big gains for other oil giants. Exxon Mobil Corp.'s earnings rose 41 percent to $10.7 billion while Royal Dutch Shell's profit nearly doubled to $8.7 billion. BP made more than $5 billion in the period following a loss of $17.2 billion last year. Oil prices soared to the highest level in three years during the quarter as uprisings swept through North Africa and the Middle East, rattling oil markets and shutting down exports from Libya. The price of gasoline, diesel, jet fuel and other fuels also surged, boosting profit margins at refineries.

### High Oil Prices now – Chevron maximizing profits

**Ordonez 7/29** (Isabel Ordonez, Dow Jones Newspapers, “2nd UPDATE: Chevron 2Q Profit Soars 43% On Higher Oil Prices”, http://online.wsj.com/article/BT-CO-20110729-717203.html, 2011) SV

HOUSTON (Dow Jones)--Chevron Corp.'s (CVX) second-quarter earnings surged a better-than-expected 43%, following the trend of soaring profits posted this week by oil giants thanks to higher oil prices and improved refining margins. Chevron's quarterly profit of $7.73 billion, or $3.85 a share, beat analysts' expectations of $3.56 per share due to higher-than-anticipated results in the refining and marketing business, according to Oppenheimer & Co. Analysts had expected the company's refining arm to be hit harder by oil prices than it was. Chevron's quarterly profit was up from $5.41 billion, or $2.70 a share, a year earlier. Revenue climbed 30% to $68.9 billion.

### High Oil Prices now – Oil Companies maximizing profits

**Froomkin 7/29** (Dan Froomkin, Huffington Post Business, “Big Oil Companies Post Huge Profits On High Gas Prices”, http://www.huffingtonpost.com/2011/07/29/big-oil-profits\_n\_913452.html, 2011) SV

According to second-quarter earnings reports, ExxonMobil alone made $10.7 billion in the most recent three months. That's a 41 percent increase over the same period last year and a 161 percent increase over 2009. Shell nearly doubled its profits year over year, taking in $8.7 billion in the second quarter. Chevron's profits were $7.7 billion, up 43 percent. BP earned $5.6 billion, a far cry from its $17.2 billion loss a year ago. Only Conoco Philips, with $3.4 billion in earnings, posted smaller profits than a year ago, dropping 18 percent due to the jettisoning of some Russian assets.

## Transition Now---Russia

### Russia transitioning toward renewable energy now – but they’re still vulnerable to price swings

**CIA 7/12** (Central Intelligence Agency World Factbook, “Russian Economy – Overview”, http://www.indexmundi.com/russia/economy\_overview.html, 2011) SV

Russia has undergone significant changes since the collapse of the Soviet Union, moving from a globally-isolated, centrally-planned economy to a more market-based and globally-integrated economy. Economic reforms in the 1990s privatized most industry, with notable exceptions in the energy and defense-related sectors. The protection of property rights is still weak and the private sector remains subject to heavy state interference. Russian industry is primarily split between globally-competitive commodity producers - in 2009 Russia was the world's largest exporter of natural gas, the second largest exporter of oil, and the third largest exporter of steel and primary aluminum - and other less competitive heavy industries that remain dependent on the Russian domestic market. **This reliance on commodity exports makes Russia vulnerable to boom and bust cycles that follow the highly volatile swings in global commodity prices**. The government since 2007 has embarked on an ambitious program to reduce this dependency and build up the country's high technology sectors, but with few results so far. The economy had averaged 7% growth since the 1998 Russian financial crisis, resulting in a doubling of real disposable incomes and the emergence of a middle class. The Russian economy, however, was one of the hardest hit by the 2008-09 global economic crisis as oil prices plummeted and the foreign credits that Russian banks and firms relied on dried up. The Central Bank of Russia spent one-third of its $600 billion international reserves, the world's third largest, in late 2008 to slow the devaluation of the ruble. The government also devoted $200 billion in a rescue plan to increase liquidity in the banking sector and aid Russian firms unable to roll over large foreign debts coming due. The economic decline bottomed out in mid-2009 and the economy began to grow in the first quarter of 2010. However, a severe drought and fires in central Russia reduced agricultural output, prompting a ban on grain exports for part of the year, and slowed growth in other sectors such as manufacturing and retail trade. High oil prices buoyed Russian growth in the first quarter of 2011 and could help Russia reduce the budget deficit inherited from the lean years of 2008-09, but inflation and increased government expenditures may limit the positive impact of these revenues. Russia's long-term challenges include a shrinking workforce, a high level of corruption, difficulty in accessing capital for smaller, non-energy companies, and poor infrastructure in need of large investments.

## Stable Prices Now

### High Oil Prices are Stable

**UPI 7/18** (United Press International, “Report: High oil prices unlikely to budge”, http://www.upi.com/Business\_News/Energy-Resources/2011/07/18/Report-High-oil-prices-unlikely-to-budge/UPI-41461311031309/, 2011) SV

LONDON, July 18 (UPI) -- Everything including the imminent start of the hurricane season in Mexico suggests the oil price will stay up in the foreseeable future despite efforts by consumer nations' groups and OPEC to ease upward pressure on crude market movements. More oil was released on world markets in June and July than in the recent past as part of recent market maneuvers at the International Energy Agency, which represents consumer industrial countries, and at the Organization of Petroleum Exporting Countries. Traders' calculations that excess oil would push prices down didn't meet the expected with market results, however. The reason, the London Center for Global Energy Studies said in its Monthly Oil Report, was that the release of crude oil stocks by the IEA created its own dynamic as markets noticed the lower reserves and robust consumer demand in Asia kept the prices buoyant.

### Oil Prices Stabilizing now – market forces and oil reserves

**Jordan 6/30** (John Jordan, Business Journalist, “Digging for Housing's Silver Lining”, http://www.investoruprising.com/author.asp?section\_id=1297&doc\_id=230956, 2011) SV

Analysts, forecasters, investors, and befuddled homeowners are all wondering when low prices, and historically low interest rates, will bring a flood of buyers to the market. However, a still-unstable job climate and high commodity prices have trumped market forces that are normally catalysts for a robust home sales market. No one can buy a house if he's out-of-work, not matter how low the sales price or tempting the mortgage interest rate. However, with oil prices stabilizing somewhat because of market forces and the decision to tap into oil reserves, there is a glimmer of an improving economy as the year goes on. That same slight improvement should help the housing market, at least according to the National Association of Realtors.

# Link Debate

## Supply Links

### Renewable energy means Saudi Arabia floods the market – the status quo ensures a smooth transition to renewable energy

**IBT 11** (International Business Times, “Why lower Saudi oil prices kill alternative energy”, http://www.ibtimes.com/articles/154524/20110530/saudi-arabia-oil.htm, May 30, 2011) SV

Saudi Prince Al-Waleed bin Talal seems to understand this. In a CNN interview, he admitted Saudi Arabia wants lower oil prices because it doesn’t “want the West to go and find alternatives.” Alternative energy hasn’t taken off in the US because its development largely depends on the private sector. Currently, it’s simply cheaper buy oil from countries like Saudi Arabia, so not many private companies bother to develop alternative sources. For example, if Saudi oil average $80 per barrel in the long-term, why bother extracting oil from oil sands and oil shale if doing so cost $85 per barrel? Why turn to electric cars if the whole ordeal – the research, electric cars, and electric grid – cost more than filling up convention cars with imported fossil fuel? On the other hand, if oil skyrockets to $200 per barrel, it would make absolutely sense to develop oil sands, oil shale, and electric cars.

### Decreased demand for oil causes cartel members to flood the market

Barsky and Kilian, ‘4 - Robert B. Barsky and Lutz Kilian 2004 [Professor of Economics, University of Michigan, Ann Arbor, Michigan, and Research Associate, National Bureau of Economic Research, Cambridge, Massachusetts; Associate Professor of Economics, University of Michigan, Ann Arbor, Michigan, and Research Fellow, Centre for Economic Policy Research, London, United Kingdom, Journal of Economic Perspectives—Volume 18, Number 4—Fall 2004—Pages 115–134, http://www.rau.ro/intranet/JEP/2004/1804/18040115.pdf]

The view that worldwide demand for oil is essential in understanding oil prices does not imply that OPEC was inconsequential. A key channel that links the stability of oil cartels to macroeconomic forces is described in standard theoretical models of cartels such as Rotemberg and Saloner (1986) and Green and Porter (1984). Producers trade off the immediate gains from abandoning the cartel against the present value of the future cartel rents foregone. This logic suggests that, all else equal, unusually low real interest rates as in the 1970s should be conducive to the formation of cartels and that high real interest rates should be detrimental. Furthermore, the work of Green and Porter implies that the ability of cartels to keep prices high will be procyclical if producers are unable to tell whether other cartel members are cheating by exceeding their production quota. More specifically, in times of unexpectedly low demand, when prices fall below a trigger point, cartel members will choose to flood the market with their output. The assumption of imperfectly observable output is particularly appealing for crude oil producers. The actual production level of crude oil can only be estimated in many cases, and reliable output statistics become available at best after a long lag. Thus, strong economic expansions, all else equal, should strengthen oil cartels and major recessions weaken them.3

### Empirics prove – producers overpump to stave off renewables

**Mouawad, ‘8** – writer for international Herald Tribune [Jad, 6/15/2008, International Herald Tribune, “Saudis plan to increase oil output,” http://www.iht.com/bin/printfriendly.php?id=13723782, DS]

Saudi Arabia, the world's biggest oil exporter, is planning to increase its output next month by about a half-million barrels a day, an increase of nearly 6 percent, according to analysts and oil traders briefed by Saudi officials. The increase could raise Saudi output to a production level of 10 million barrels a day, which, if sustained, would be the highest ever by the kingdom. The move was seen as a sign that the Saudis are becoming increasingly nervous about both the political and economic effects of high oil prices. In recent weeks, soaring fuel costs have incited demonstrations and protests from Italy to Indonesia. Saudi Arabia is now pumping 9.45 million barrels a day, which is an increase of about 300,000 barrels from last month. While they are reaping record profits, the Saudis are concerned that the record prices reached this month might eventually dampen global economic growth and lead to lower oil demand, as is already happening in the United States and other developed countries. The current prices are also making alternative fuels more viable, threatening the long-term prospects of the oil-based economy. President George W. Bush visited Saudi Arabia twice this year, pleading with King Abdullah to step up production. While the Saudis resisted the calls then, saying the markets were well supplied, they seem to have since concluded that they needed to disrupt the momentum that has been building in commodity markets, sending prices higher. Abdullah has also taken the unprecedented step of arranging on short notice a major gathering of oil producers and consumers to address the causes of the price increase. The meeting will be next Sunday in the Red Sea town of Jidda. On Sunday, Saudi state-owned Al Arabiya Television said that the country had yet to determine the size of the planned oil output increase and that doing so would be premature "before the meeting of consumers and producers" on Sunday. Oil prices have gained 40 percent this year, rising to nearly $140 a barrel in recent days l2and driving gasoline costs in the United States above $4 a gallon, or $1.06 a liter. Some analysts have predicted that prices could reach $200 a barrel this year as oil consumption continues to rise rapidly while supplies lag. The growing volatility of the markets, including a record one-day gain of $10.75 a barrel on June 6, has persuaded the Saudis that they need to step in, analysts said. Tony Fratto, a White House spokesman, said, "We would welcome any and all increases in oil production, including from Saudi Arabia." But the measure carries some risks to the kingdom and is not guaranteed to bring down prices, analysts said. Some investors doubt that Saudi Arabia has the capacity to increase its production beyond current levels. "This clearly represents the biggest test for them," John Kilduff, a senior vice president of the brokerage firm MF Global, said. He added that the move could backfire if investors failed to respond to the extra Saudi supplies. No other producer has the capacity to quickly expand production. "They see these prices as a threat," he said. By increasing production now, they are using their "last bullet to fight high prices.”

### The Plan means OPEC floods the market to increase demand – they won’t risk losing consumers

Oystein Noreng, Petropol Programme of the Norwegian Research Council, 2002 (Crude Power, p. 143) OP

There is a risk of a technical breakthrough, which can be triggered by any sudden price rise or by prices staying too high for too long. Against this background, Saudi Arabia, Kuwait and the Emirates have had and still have an inherent interest in continuously low oil prices to avert this backstop risk. The best compromise between short-term, immediate revenues and medium-term ones mainly depends on the financial needs of the oil producer. If actual revenues are less than the level of expenditure desired, they will choose a lower price in order to stimulate demand and to depress non-OPEC production. Conversely, should the revenues be much more than desired, the countries in this situation might favour higher prices even if they led to dampened demand and stimulated production elsewhere. This theoretical economic framework has been influenced in practice by the political interaction of the three Arabian Peninsula producers with their neighbours. Moreover, internal factors in each of the countries should be taken into account. For example, Kuwait has a large financial portfolio and is most interested in the effects of oil price decisions on the world economy, with important parameters such as inflation rates, interest rates and growth rates. These varying concerns for the future create fundamentally opposing price interests within OPEC and, more importantly, within the Middle East Countries with high revenue needs want to deplete their oil not only quickly, but also at a high price. By contrast, countries with limited revenue needs not only agree on cutting the production rate, but they have also wanted, for the past few years and they still want for the next few years, the price of oil to stay low. As has been demonstrated on numerous occasions over the past 20 years, the latter countries have a considerable flexibility. They can reduce output so long as their revenue needs are fulfilled; yet they do not hesitate occasionally to 'flood' the market in order to bring the oil price down.

### US Consumption Patterns are key – 1 in every 4 barrels goes to the US

**Roberts 04** (Paul, regular contributor to Harpers Magazine and “expert on the complex interplay of economics, technology, and the environment, The End of Oil, p. 94-5)

The geopolitics of oil are vast, complex, and ever-changing, but three elements are of absolute importance. The first is the preponderant role of the United States. Since the earliest days of the oil industry, the country has been the dominant figure, first as the world's largest producer of oil and other energy and now as its largest consumer. Today, one out of every four barrels of oil produced in the world is burned in America, and this enormous, apparently limitless appetite exerts a ceaseless pull on the rest of the worlds oil players and on the shape of the world political order. American oil lust is a mixed blessing: on the one hand, such heavy dependence on foreign oil makes the United States vulnerable to disruptions in supply and to energy "blackmail" and has, in addition, fostered a long tradition of doing whatever is necessary, covertly or overtly, to ensure that the United States — and U.S. oil companies — have access to world oil supplies. At the same time, however, the sheer extent of American demand, coupled with the country's own booming production (the United States is still the number-three oil producer), gives Uncle Sam a degree of influence over world oil markets and world oil politics that goes well beyond anything the U.S. might achieve militarily. America is not only the biggest oil market in the world, but the fastest-growing: in the 1990s, American oil imports grew by 3.5 million barrels a day, more than the total oil consumption of any country except China and Japan, and that trend has continued in the first decade of the new millennium. After the United States, no other market offers exporters like Russia or Saudi Arabia the same opportunities for both growth and volume of sales, and no oil producer, whether country or company, can afford to miss out. Today, a producer's share of the U.S. market is a critical measure of that producer's political standing and future prospects. Saudi Arabia, for example, is so desperate to maintain its share of the U.S. market that it sells oil to Americans at a discount. Even oil states with profoundly anti-American sentiments — Venezuela, Libya, and until recently Iraq — are exceedingly cordial when it comes to selling or trying to sell oil to Americans.

## Demand/Perception Links

### The plan lowers the expected future demand for oil—oil prices plummet and oil companies flood the market

Feldstein, ‘8 - Martin Feldstein, 7/1/2008. Chairman of the Council of Economic Advisers under President Reagan, is a professor at Harvard and a member of The Wall Street Journal's board of contributors. “We Can Lower Oil Prices Now,” The Wall Street Journal, http://online.wsj.com/article/SB121486800837317581.html?mod=opinion\_main\_commentaries.

Unlike perishable agricultural products, oil can be stored in the ground. So when will an owner of oil reduce production or increase inventories instead of selling his oil and converting the proceeds into investible cash? A simplified answer is that he will keep the oil in the ground if its price is expected to rise faster than the interest rate that could be earned on the money obtained from selling the oil. The actual price of oil may rise faster or slower than is expected, but the decision to sell (or hold) the oil depends on the expected price rise. There are of course considerations of risk, and of the impact of price changes on long-term consumer behavior, that complicate the oil owner's decision – and therefore the behavior of prices. The Organization of Petroleum Exporting Countries (the OPEC cartel), with its strong pricing power, still plays a role. But the fundamental insight is that owners of oil will adjust their production and inventories until the price of oil is expected to rise at the rate of interest, appropriately adjusted for risk. If the price of oil is expected to rise faster, they'll keep the oil in the ground. In contrast, if the price of oil is not expected to rise as fast as the rate of interest, the owners will extract more and invest the proceeds. The relationship between future and current oil prices implies that **an expected change in the future price of oil will have an immediate impact on the current price of oil.** Thus, when oil producers concluded that the demand for oil in China and some other countries will grow more rapidly in future years than they had previously expected, they inferred that the future price of oil would be higher than they had previously believed. They responded by reducing supply and raising the spot price enough to bring the expected price rise back to its initial rate. Hence, with no change in the current demand for oil, the expectation of a greater future demand and a higher future price caused the current price to rise. Similarly, credible reports about the future decline of oil production in Russia and in Mexico implied a higher future global price of oil – and that also required an increase in the current oil price to maintain the initial expected rate of increase in the price of oil. Once this relation is understood, it is easy to see how news stories, rumors and industry reports can cause substantial fluctuations in current prices – all without anything happening to current demand or supply. Of course, a rise in the spot price of oil triggered by a change in expectations about future prices will cause a decline in the current quantity of oil that consumers demand. If current supply and demand were initially in balance, the OPEC countries and other oil producers would respond by reducing sales to bring supply into line with the temporary reduction in demand. A rise in the expected future demand for oil thus causes a current decline in the amount of oil being supplied. This is what happened as the Saudis and others cut supply in 2007. Now here is the good news. Any policy that causes the expected future oil price to fall can cause the current price to fall, or to rise less than it would otherwise do. In other words, it is possible to bring down today's price of oil with policies that will have their physical impact on oil demand or supply only in the future. For example, increases in government subsidies to develop technology that will make future cars more efficient, or tighter standards that gradually improve the gas mileage of the stock of cars, would lower the future demand for oil and therefore the price of oil today. Similarly, increasing the expected future supply of oil would also reduce today's price. That fall in the current price would induce an immediate rise in oil consumption that would be matched by an increase in supply from the OPEC producers and others with some current excess capacity or available inventories. Any steps that can be taken now to increase the future supply of oil, or reduce the future demand for oil in the U.S. or elsewhere, can therefore lead both to lower prices and increased consumption today.

### Transition to renewables kills demand – leads to imbalance and oil flux

**Stevenson 8** (Andy Stevenson, Natural Resources Defense Council Staff Blog, “What Does the American Consumer Say About the Fall in Oil Prices? You're Welcome!”, August 27, 2008) SV

Oil prices hit an all-time high of $147/barrel in July. Up until this time, global oil supply had failed to keep up with rising global demand, allowing speculators to push oil prices higher and higher without penalty. That was their thinking anyway, before the American consumer spoiled the party. Now oil is at $113/barrel and the markets are still wondering what happened. Since we are by far the largest buyer of oil in the global marketplace, it shouldn’t have come as a complete surprise to energy traders that a change in our behavior could have a meaningful impact on oil prices. Yet the fact that the US had reduced oil consumption by 860,000 barrels a day during the first half of this year did not seem to get much attention from the markets. It didn’t actually matter much as global demand, lead by China, continued to grow at a pace of 1.2mln barrels a day, leaving oil production in deficit. This all changed in July of course when new Saudi Arabian crude came on line and the US’s hard won reduction in demand finally tipped the scale in favor of supply. In fact, as can be seen in the table below, without the US consumers’ efforts to reduce oil consumption, the world would still be in a supply/demand imbalance. An imbalance that would have allowed speculators to continue to push oil prices higher and higher. Moreover, as vehicle sales data continues to point out, a structural change in the US vehicle fleet is taking place that should provide additional demand side reductions coming out of the US over the next several years. While it might seem strange that the US has been the main driver of reduced oil demand over the past few months, it should be noted that the US consumer is far more exposed to higher gas prices than consumers in other countries. As can be seen in the graph below, lower fuel taxes and a weakening dollar have made higher oil prices far more painful at the pump for Americans than Europeans over the past several years. Indeed as Americans, it should be rewarding to know that we as consumers can actually influence global oil prices directly by changing our behavior. This demand-side response is far superior, for example, to the potential supply side impacts of drilling, which would have no impact on prices for the next decade and then only offer marginal relief thereafter. This ability of the US to influence oil prices from the demand side, even with China showing little sign of slowing their demand for oil, must be remembered by those scrambling to develop an effective policy response.

### Perception of a US renewable energy policy causes oil prices to drop

**Feldstein 8** (Martin, George F. Baker Professor of Economics at Harvard, chairman of the Council of Economic Advisers under President Reagan, Member of, Ph.D. from Oxford, "We Can Lower Oil Prices Now," http://online.wsj.com/article/SB121486800837317581.html?mod=googlenews\_wsj download date: 2-2-09) OP

Although most experts agree that financial speculation was not responsible for the surge in the global prices of food and energy, many people remain puzzled about the source of these remarkable price rises. Economics offers a simple supply-and-demand explanation and reason for optimism about the future of commodity prices. In the case of oil, economics also suggests how policy changes today that affect the future could quickly lower the current price of oil. We all know that rising incomes in China, India and the Gulf states have increased the demand for oil and many other commodities. But how could the modest, one-year rise of these demands lead to 100% increases in the prices of oil and other commodities? Let's take a look first at perishable agricultural commodities. In the short run, there is little scope for increasing the supply of corn in response to a global increase in demand. For demand and supply to balance – for the market to clear – the price of corn must rise. If the demand for corn were very price-sensitive, a relatively small increase in price would reduce global demand by enough to offset the initial rise in demand. However, since demand is actually quite insensitive to price in the short run, it takes a very large price rise to bring global demand into line with supply. Here is a simplified picture of what happened in the past year. The quantity of corn demanded by high-growth countries rose gradually, increasing eventually by an amount equal to, say, 10% of the previous total global level of corn consumption. Since the supply of corn did not increase, the price had to increase enough to reduce corn consumption in other countries by 10%. If it takes a 10% increase in the price to reduce the quantity of corn demanded in the first year by just 1%, it would take a 100% increase in the price of corn to offset the initial 10% rise in the quantity of corn demanded. In reality, the picture is complicated by the substitution in both supply and demand among different agricultural commodities, and by the role of the corn ethanol program. But the basic explanation holds: With a very low short-run price sensitivity of demand and little scope to raise supply in the short run, even a relatively small increase in corn demand by the high-growth economies can lead to a very large short-run rise in the price of corn. Fortunately, the price sensitivity of both demand and supply will increase with time. This implies that the rising demand from China and other countries may eventually be accommodated with a price lower than today's level. The situation for oil is more complex, but the outcome for prices is potentially more favorable. Unlike perishable agricultural products, oil can be stored in the ground. So when will an owner of oil reduce production or increase inventories instead of selling his oil and converting the proceeds into investible cash? A simplified answer is that he will keep the oil in the ground if its price is expected to rise faster than the interest rate that could be earned on the money obtained from selling the oil. The actual price of oil may rise faster or slower than is expected, but the decision to sell (or hold) the oil depends on the expected price rise. There are of course considerations of risk, and of the impact of price changes on long-term consumer behavior, that complicate the oil owner's decision – and therefore the behavior of prices. The Organization of Petroleum Exporting Countries (the OPEC cartel), with its strong pricing power, still plays a role. But the fundamental insight is that owners of oil will adjust their production and inventories until the price of oil is expected to rise at the rate of interest, appropriately adjusted for risk. If the price of oil is expected to rise faster, they'll keep the oil in the ground. In contrast, if the price of oil is not expected to rise as fast as the rate of interest, the owners will extract more and invest the proceeds. The relationship between future and current oil prices implies that an expected change in the future price of oil will have an immediate impact on the current price of oil. Thus, when oil producers concluded that the demand for oil in China and some other countries will grow more rapidly in future years than they had previously expected, they inferred that the future price of oil would be higher than they had previously believed. They responded by reducing supply and raising the spot price enough to bring the expected price rise back to its initial rate. Hence, with no change in the current demand for oil, the expectation of a greater future demand and a higher future price caused the current price to rise. Similarly, credible reports about the future decline of oil production in Russia and in Mexico implied a higher future global price of oil – and that also required an increase in the current oil price to maintain the initial expected rate of increase in the price of oil. Once this relation is understood, it is easy to see how news stories, rumors and industry reports can cause substantial fluctuations in current prices – all without anything happening to current demand or supply. Of course, a rise in the spot price of oil triggered by a change in expectations about future prices will cause a decline in the current quantity of oil that consumers demand. If current supply and demand were initially in balance, the OPEC countries and other oil producers would respond by reducing sales to bring supply into line with the temporary reduction in demand. A rise in the expected future demand for oil thus causes a current decline in the amount of oil being supplied. This is what happened as the Saudis and others cut supply in 2007. Now here is the good news. Any policy that causes the expected future oil price to fall can cause the current price to fall, or to rise less than it would otherwise do. In other words, it is possible to bring down today's price of oil with policies that will have their physical impact on oil demand or supply only in the future. For example, increases in government subsidies to develop technology that will make future cars more efficient, or tighter standards that gradually improve the gas mileage of the stock of cars, would lower the future demand for oil and therefore the price of oil today. Similarly, increasing the expected future supply of oil would also reduce today's price. That fall in the current price would induce an immediate rise in oil consumption that would be matched by an increase in supply from the OPEC producers and others with some current excess capacity or available inventories. Any steps that can be taken now to increase the future supply of oil, or reduce the future demand for oil in the U.S. or elsewhere, can therefore lead both to lower prices and increased consumption today.

# Internal Links

## Iraqi Stability

### Declining oil prices kill Iraqi stability – crash infrastructure and ethnic unity

Michaels, ‘8 – writer for USA TODAY [Jim, 12/17/2008, USA Today, “Declining oil prices threaten Iraqi stability,” http://www.usatoday.com/news/world/iraq/2008-12-16-iraqoil\_N.htm, DS]

Plummeting oil prices may force Iraq's government to slow ambitious reconstruction plans, and the country could face a budget shortfall by next summer, U.S. and Iraqi officials said. "We're in a situation where Iraq is … potentially going to be in a deficit mode next year," said Paul Brinkley, who leads Pentagon efforts to aid Iraq's economy. The trend worries U.S. officials who say a strong economy is needed to lock in the security gains made over the past year. "The long-term stability of the country heavily depends on a vibrant economy," Brinkley said. Iraq, which sits on the world's third-largest oil reserves, gets at least 90% of its revenue from oil sales. Crude oil prices have dropped about 70% since July when they topped $147 a barrel. Iraq's government is considering slowing, but not canceling, major reconstruction projects, Brinkley said. Many projects were planned during Iraq's massive oil windfall earlier this year. Responsibility for funding most large projects has shifted to Iraq from the U.S. government. The oil market is hard to predict and if prices increase again next year, money would pour once again into government coffers. But the size of the recent drop has Iraqi officials worried about the future. "For next year, with the oil prices going down, we're going to have a problem," said Samir Sumaidaie, Iraq's ambassador to the United States. If prices decline after that, "it's not even going to be enough to pay salaries, never mind reconstruction of the infrastructure," he said in a speech Tuesday. Future stability is tied to a strong economy, U.S. officials and analysts say. "The economy's ability to be able to absorb its young people is absolutely critical," Brinkley said. Declining revenue would probably heighten tensions between sectarian groups, said Anthony Cordesman, an Iraq analyst at the Center for Strategic and International Studies. "When you have a large pie, it's easy to divide it up" in a way that won't alienate rival factions, he said. Iraq's budget this year is $72 billion, including $21 billion for reconstruction. The government planned to spend $78.9 billion next year based on oil selling at $80 a barrel. Iraq exports about 2 million barrels a day. Iraq's government is doing a top-to-bottom review of its budget because of the falling oil prices, spokesman Ali al-Dabbagh said. Iraq could turn to bonds next year to fund reconstruction. "Iraqis have announced no intent to deficit spend next year, but there are not a lot of choices available when one gets into a budget shortfall," Brinkley said. Whether Iraq is sitting on a large cash surplus is the subject of dispute. A Government Accountability Office report issued this year said Iraq entered the year with a cumulative budget surplus of about $29 billion and forecast an additional $38.2 billion to $50.3 billion surplus this year. Iraq's government has challenged those numbers. Sumaidaie said Iraq has a reserve to support the country's currency but it is controlled by the nation's central bank and is not accessible by the government. The drop in oil revenue hit as security gains in Iraq brought a measure of stability to the country. Brinkley said Iraq attracted about $1 billion in foreign investment this year.

### High oil prices key to Iraqi stability – finance government projects and comparatively outweigh other economic problems

Donovan 3/29 – attorney with Iraq Law Alliance, PLLC [Thomas, 3/29/2011, The National, “Buoyed by oil, a semblance of stability in Iraq,” http://www.thenational.ae/thenationalconversation/news-comment/buoyed-by-oil-a-semblance-of-stability-in-iraq?pageCount=2, DS]

As upheaval and political instability sweep across the Middle East, Iraq has quietly consolidated recent security gains against a backdrop of economic progress. As the recent rise of oil prices worldwide coincided with a petroleum industry that has reached its production targets, Iraq is now emerging from its civil wars and sectarian uncertainty with a new outlook and better prospects for lasting prosperity. Although several demonstrations in the Kurdish north have recently occurred, demanding systemic political change, the early gains in 2011 cannot be ignored. The ruling coalition, led by the prime minister Nouri al Maliki, has forged a transparent - albeit tenuous - unity government from two duelling political parties, curtailed nation-wide violence and helped to reduce long-simmering tensions. More importantly, increased revenue from the petroleum sector has enabled the Iraqi government to revise its budget forecast and pay for many infrastructure-related investments. These developments are welcome and long overdue. The crucial aspect in this development strategy is, of course, the stability of the petroleum and natural gas industry, and whether the electricity delivery system will function during the summer months. Since June 2009, the Maliki government has secured over a dozen major oil field contracts with international oil companies, and has made these deals the cornerstone of Iraq's future economic development. The challenge now will be sustaining these impressive gains. While the country's future oil production has been optimistically projected as high as 12 million barrels per day (bpd) by 2020, significant obstacles remain to increased output. For one, the country's infrastructure and skilled labour supply are insufficient for the country's ambitious plans, and billions of dollars must be invested to facilitate a supporting infrastructure for oil field development and exports. Although Iraq has the second largest amount of reserves in the world, current output is similar to the level of Algeria, whose proven reserves are a fraction of those of Iraq. Beyond capacity are more bureaucratic hurdles. For instance, much has also been discussed about the legality and constitutionality of the agreements awarded through the bid round processes. At the centre of the debate is the ambiguous legal framework that underlies Iraq's oil industry. The absence of any national hydrocarbon law leaves lawmakers and regional governments at odds and uncertain over the application of laws already in place. The 2005 Iraqi National Constitution arguably grants significant power to the regional semi-autonomous governments, such as the Kurdistan Regional Government (KRG), when it comes to managing hydrocarbon resources, as well as negotiating their extraction. However, previous governments chose to negotiate these bid rounds in a centralised fashion, despite the lack of a comprehensive petroleum law. One of the main challenges facing Iraq is the lingering dispute between Baghdad and the KRG over oil production and exports in Iraq's Kurdish region. Frustrated by stalled negotiations over a national oil law, the KRG passed its own hydrocarbon investment law in 2007, based on a contentious interpretation of the Iraqi constitution, and began independently entering into their own production sharing contracts (PSCs) with over three dozen independent oil companies. At first, Baghdad condemned the PSCs, which have drawn international scrutiny over allegations of impropriety, and the central government blacklisted any oil company operating under agreement with the KRG. This early resistance, however, appears to be changing. One of the first acts of the new federal Iraqi Minister of Oil, Abdul Karim al Luaibi, was to resume permission allowing the export of petroleum from the Kurdistan Region. This breakthrough was further supported by Mr al Maliki's assertion last month that federal Iraq will abide by the terms of the PSCs signed by the KRG. At the nexus of enacting a federal oil law and the dispute with the KRG rests the central legal and political issue of Iraq's political future: the long-running dispute over the ethnically-mixed and oil-rich area around Kirkuk against a backdrop of Kurdish demands for greater autonomy. Iraq's Kurds have repeatedly called for the area's energy resources to be placed under KRG administration. The local Arab population is equally insistent that Kirkuk and its oil remain under the authority of Baghdad. This dispute will undoubtedly last well past the tenure of Mr al Maliki as prime minister, who has also stated publicly that he will not seek a third term in office past 2014. Although the need to develop the electricity production and delivery system, increase petroleum production to required levels, political cleavages, and sectarian differences may seem daunting and insurmountable, the challenges which Iraq continues to face are relatively manageable compared to the progress it has already made.

### Low oil prices devastate stability – empirics prove

Robertson and Glanz, ‘9 – writers for New York Times [Campbell and James, 2/26/2009, New York Times, “Fall in oil prices threatens plans to rebuild Iraq,” http://www.nytimes.com/2009/02/26/world/africa/26iht-26reconstruct.20445200.html?pagewanted=all, DS]

In few nations around the globe are the consequences of the financial crisis as potentially sobering as they are in Iraq. Both oil revenues and American financial support have plummeted just as the country has the chance to take advantage of its increasing stability to improve basic services and upgrade its ruined infrastructure. Now, projects are being put off as Iraq struggles to pay for huge raises granted to government employees as well as the salaries and equipment for hundreds of thousands of new Iraqi security troops. Last summer, with oil prices above a hundred dollars a barrel, Iraq was so flush with cash that many in the United States were arguing that a country so rich should be paying for its own reconstruction and possibly even reimbursing American taxpayers. Six months later, the question is whether a decline in Iraqi government revenues, which depend almost entirely on oil, could threaten the relative security and stability won here at the cost of so much American treasure and life. Indeed, political pressure is rising here, as more Iraqis demand precisely the services, like better electricity, water and education, that could now come more slowly. A stable Iraqi economy and an adequately prepared Iraqi military are crucial if American combat troops are to withdraw by August 2010, as aides to President Barack Obama suggested this week. And illustrating just how closely the two countries are still intertwined, a faltering Iraq could also complicate Obama's plan to lower the American deficit with billions in savings that would come from such a withdrawal. As the Iraqi Parliament debates a proposed $62.8 billion budget this week, senior American and Iraqi officials say that Iraq can prevent an immediate crisis by drawing on the very source that attracted such intense criticism in the United States: the billions of dollars in oil revenues that Iraq was unable to spend on its reconstruction projects. That money, which Iraq's central bank and senior administration officials in the United States say comes to roughly $35 billion, is sitting in various bank accounts, including one at the Federal Reserve Bank in New York. To help plug the gap, Iraq is planning to withdraw about $20 billion in a single year. But that will not be enough, government officials say, to save reconstruction projects crucial to improving gravely inadequate services. The provision of electricity is still far short of meeting demand, and the government is still struggling to provide clean water. Iraqi officials insist that Iraq could have revenue sources besides oil, like agriculture and industry, but developing them requires investments. Oil production itself has recently dropped in certain key fields, requiring a major injection of government money. In the past, money for projects has been allocated but not spent. Now it is drying up altogether. "It's a mathematical issue," Raed Fahemi, the minister of science and technology, said at a conference on Wednesday dedicated to finding alternatives to oil money. "We are staying up all night trying to ensure that there are required funds for projects currently under way. The issue comes with the future projects." The reason capital projects are being put off is that those funds were originally intended to be spent as part of the capital budget, not to meet shortfalls in Iraq's day-to-day operating costs, which now take up four-fifths of the proposed 2009 budget. And unless oil prices increase or Iraq finds new sources of revenue, its piggy bank at the Fed will last only so long. "It's a disaster," said Ismail Shukir Haruty, a member of Parliament's financial committee. "What are we going to do in 2009, 2010, 2011?" In many ways, the financial crisis, with the resulting drop in oil prices, could not have come at a worse time. The government gave its employees substantial raises last year. Wages now take up about 35 percent of the budget. And in a critical move as the United States takes less and less responsibility for security, the number of soldiers, police officers and other security personnel has soared to 609,000, from 250,000 two years ago, when oil prices were on the rise, according to the Pentagon. "There are some critical expenditures, like paying the military and the police and making sure that's being done very, very well," said Rick Barton, co-director of the post-conflict reconstruction project at the Center for Strategic and International Studies in Washington. "You can't afford any slippage at this time." Still, a senior administration official said the United States was confident that the cumulative oil surpluses would allow it to weather the immediate storm. "The overall trend is still moving in a reasonable direction even if they're not able to do quite as much as anticipated," the official said. Identifying the roots of the crisis here is much simpler than it is in many places in the world. In Iraq, there is not much of a credit market to dry up nor are there mortgages to default on. Oil accounts for roughly 90 percent of government revenue. When oil prices drop, as they have to below $40 a barrel from a high last summer of nearly $150, there are few other options. Finance and Oil Ministry officials in Iraq maintain that oil prices will rise again by the end of the year. After years of conservative budgeting, the proposed 2009 budget is based on an optimistic projection that oil will be selling at $50 a barrel, and that Iraq will be exporting two million barrels a day, about 100,000 barrels more than Iraq exported per day in January. Critics of the budget say that the projection is unrealistically rosy and that the deficit will be even larger than the one planned. The timing is particularly bad for the new leaders who emerged from January's provincial council elections. Many blamed incumbents for failing to deliver services and improvements, but they will have to make good on their promises with much less money. "Reasonable people will understand, but the common people will not accept it," said Baqir al-Shaalan, who won in the southern Iraqi province of Diwaniya on promises of a refurbished irrigation system, new housing and government jobs for unemployed youths. "They will tell us: 'You've been justifying the lack of services with the security situation. Now the security situation has improved.' " Then again, the provincial councils have such a dismal record of spending the money they have been allocated that, American officials say, they could actually spend more money this year even if their budgets are more austere. There is a bright side: the crisis could finally force the Iraqi government to build up its agricultural and industrial sectors, and create a thriving private sector. Some Iraqi officials have been pushing for these moves for years. "If the Iraqi government knew about the big depression, it would have done a lot of things differently," Haruty, the lawmaker, said. "Same as the American government, I think."

## Saudi Arabia Ext.

### The Saudi Arabian economy is dependent on Oil – they’re the central bank of oil

**Banerjee 11** (Neela Banerjee, Los Angeles Times, “Saudi Arabia's move to keep oil flowing brings crude prices down”, http://articles.latimes.com/2011/feb/25/business/la-fi-oil-saudis-20110225, 2/25/11) SV

Saudi Arabia's promises to rein in prices by boosting production might appear surprising given that its economy is almost entirely dependent on oil revenue. And Saudi leaders, finding themselves surrounded by unnerving populist revolts, have been frustrated that the U.S. seems sympathetic to the uprisings. But the latest assurance makes public what the Saudis have been doing quietly since the fall: gradually increasing production to keep up with growing demand and to damp prices. Like much of the rest of the world, the Saudis fear runaway oil prices. They understand that prices over $100 a barrel threaten to sap global economic growth and with it, demand for oil. With its vast reserves and infrastructure, Saudi Arabia is uniquely positioned to put a lid on prices, an imperative that politics so far has not derailed. "They know their value to the world is as the central bank of oil," said F. Gregory Gause III, professor of political science at the University of Vermont. "They're signaling, 'Don't worry, we'll take care of it.' They like the high revenues but they want to make sure there is no crisis." The Saudis have said repeatedly that they would provide more oil to the market, and by Thursday, they had made statements about being in "active talks" with oil companies to compensate for any Libyan shortfall. It's all an attempt to keep oil from soaring back toward the record $147 a barrel of July 2008.

## US Manufacturing

### High prices key to US manufacturing – drive up production costs of outsourcing

De Meyer and Holweg, ‘8 – [Arnoud and Matthias, Financial Times, 7/30/2008, “A silver lining to high oil prices,” http://www.ft.com/cms/s/0/6c0c2dd0-5c12-11dd-9e99-000077b07658.html#axzz1TWp4oIbq, DS]

There seems little that can be positive for the UK manufacturing sector in oil prices above $120 a barrel, rising costs of other natural resources, inflation and growing environmental pressure. But there may be a silver lining. Increased transport costs resulting from higher energy prices and carbon taxes may create an opportunity for a revival in western manufacturing. Most strategic decisions in companies are influenced by new “paradigms”, or path-breaking new concepts, and globalisation was certainly the paradigm of the past decade. However, the application of such paradigms tends to behave like a pendulum, swinging towards one extreme, and eventually swinging back. Is it possible that the pendulum may swing back for global manufacturing? The premise of global sourcing and exploiting lower labour costs for manufacturing in eastern Europe and the Bric countries – Brazil, Russia, India, China – was largely built on the cost of transport, which dropped by a third between 1960 and the turn of the millennium. This was partly the result of the introduction of containers and the rise of third-party logistics providers, which can ship goods reliably from one end of the world to the other without owning any of the transport assets in between. Trade liberalisation and agreements further helped, as did stable currencies that reduced the risks in establishing global supply lines. Yet in our and others’ research we found that none of the companies that had gone global achieved the full cost efficiencies they had envisaged. Some even found that “offshoring” their operations was more expensive than sourcing or manufacturing locally, and subsequently returned to their home country. The cost of logistics may be a lot more important than originally estimated. In a recent interview with the Financial Times (“Oil costs force P&G to rethink its supply network”, June 27) P&G management claims that the company’s storage and transport costs are currently higher that the operating expenses of its factories. Others found that product cost was indeed much lower, yet this cost reduction was traded off with much reduced quality. The recent highly publicised product recalls are but the tip of an iceberg. We found that companies commit two common mistakes when deciding to source components from abroad. First, they tend to only calculate the “static” cost of a supply chain, which basically adds the unit cost ex-supplier factory and the transport cost together. Here, the lower labour cost reduces the unit cost of the product, which generally offsets the higher transport cost of bringing it into the UK from China. Often other costs are not considered or underestimated. An example of this is the additional cost for buffer stocks, as the supply chain is inherently less able to respond to swings in demand or changes in technology. Also the risk of obsolescence or running out of stock drastically increases, yet often is not factored into the calculation. The cost of quality defects rises tremendously when a defect is discovered in a shipped batch arriving in Europe and costly air freight has to be used to refill the supply line. And the co-ordination cost of working over long distances is often taken for granted. Second, companies tend to assume that costs remain stable and do not account for what we call “dynamic” costs. The perception is that countries in eastern Europe, China and India have inexhaustible labour pools that one can tap into at low cost. While this is certainly still true for China and India, the assumption that all these workers are trained to the needed level is naïve. Recent experiences in eastern Europe should serve as a warning sign: car manufacturers relocating to Slovakia, for example, will find that local labour pools of trained workers have been virtually exhausted and inflation in the cost of trained labour is in double-digits as manufacturers are competing for labour. The salary increases that Renault had to grant to its Romanian workforce in the Dacia factories suggest the same. In India, trained staff will change jobs several times per year if they see the prospect of higher salaries elsewhere, with annual turnover of 20 per cent being normal and labour cost inflation rising to 25 per cent a year in some regions, such as Bangalore or Pune. In China, a trained middle manager in the car sector, fluent in English and Mandarin, will earn more in Shanghai than in Wolfsburg or Birmingham. Another factor that will gain increasing importance is the carbon footprint: global supply lines might be cost-competitive but they certainly are not carbon-competitive. With rising consumer conscience about the impact of patterns of consumption, manufacturers with offshored operations will find it increasingly hard to justify sending products half-way around the globe if they can be made as easily close by. So, despite all the gloom about a possible recession and rising energy costs, there is indeed a surprising glimmer of hope in this that ties in with the recovery of competitiveness in the manufacturing sector – which had long been dismissed as an obsolete part of a “service economy”. This is what we call “backshoring”: manufacturing will increasingly come back to where the markets are. This does not mean that all of it will come back, as the emerging countries are also enormous markets and local production will serve local consumption there. Yet companies will have to think increasingly in terms of networks or portfolios of plants, and narrowly defined production costs will become less important in deciding where to locate manufacturing. In order to develop this opportunity in the UK we will need to preserve the skills and the tacit knowledge that is needed for manufacturing. And we may have to learn how to efficiently operate smaller flexible units that produce the customised products for the local market.

## Dollar Heg

### Renewable transition boosts Chinese yen – facilitates China’s rise and kills dollar credibility

Daly, 6/2 – [John, Oil Price.com, “The Fukushima Cloud’s Green, not Silver Lining,” http://oilprice.com/Alternative-Energy/Renewable-Energy/The-Fukushima-Cloud-s-Green-not-Silver-Lining.html, DS]

The ongoing tragedy of Japan’s Daichi Fukshima nuclear complex will prove to be a boon for renewable energy in Japan, and astute investors should begin carefully to follow Tokyo’s new priorities. Before the March 11 twin disasters of a massive earthquake followed by a devastating tsunami, about 30 percent of Japan’s electricity was generated by nuclear power, and Tokyo had ambitious plans to raise its market share to 50 percent over the next two decades, with renewable accounting for 20 percent, Japanese Prime Minister Naoto Kan told journalists earlier this month. That optimistic policy is now in tatters, and Kan added, "However (following Fukushima), we now have to go back to the drawing board and conduct a fundamental review of the nation's basic energy policy." Kan is now touting the government's “Sunrise Project,” which has been moribund for the last seven years. The goal of the Sunrise Project is to reduce the cost of solar power over the decade to a third of current levels and to one-sixth by 2030 as an incentive for more people to install it. At the 50th anniversary of the Organization for Economic Cooperation and Development in Paris Kan told reporters, "Japan will now review its basic energy plan from scratch and is set to address new challenges." The scale of the government’s turn away from nuclear and fossil fuel power is extraordinary, as currently renewable energy resources, such as solar and wind, only make up about 1 percent of Japan's total power supply. Even with hydropower, the ratio is about only 9 percent. According to China Business the earthquake and tsunami halted production at most of Japan’s giant solar power companies, including Kyocera, Sharp and Sanyo because of the subsequent lack of electricity. Prior to the earthquake China and Japan essentially shared the European photovoltaic (PV) market; since the earthquake analysts predict that Japan will lose one quarter of its market share. The shift has already started, as The Nikkei business daily reported on Wednesday that Softbank Corp, Japan's third-largest mobile phone operator, has announced plans to assist in the construction of about ten 20-megawatt facilities, costing about 8 billion yen ($100 million) each. But, as in many Western countries dominated by the nuclear and oil industries, solar energy policies have up to now enjoyed fitful support in Japan, where pioneers such as Sharp Corp and Kyocera Corp have lost their lead to overseas rivals that received larger subsidies and lower production costs. Furthermore, the cost of solar panel installation in Japan is double that in Germany. So, who will be one of the major beneficiaries of this policy shift towards reducing solar costs? China, surprise surprise. China now has over 400 PV companies and now produces approximately 23 percent of photovoltaic products used worldwide. Three years ago China produced 1,700 megawatts of solar panels, nearly half of the world production of 3,800 MW, of which 99 percent were exported. According to Huang Xinming, head of a research institute at JA Solar, a large Chinese solar power company, JA Solar has just developed a new technology that could cut the cost of producing silicon, an important material in manufacturing solar panels, by 60 percent. Expect to see a flood of yen into China’s PV industries; smart Western investors will head east as well, where the sun always rises.

## Texas Economy

### High oil prices help the Texas economy

Castro 3/30 – AP writer [April, 3/30/2011, AP, “High oil prices good for Texas budget,” http://finance.yahoo.com/news/High-oil-prices-good-for-apf-2709681991.html?x=0, DS]

AUSTIN, Texas (AP) -- Higher oil prices may make consumers miserable, but unrest in the Middle East could mean a tax revenue windfall for Texas' tight budget. The money is coming from Texas oil producers who have increased their rig counts to take advantage of prices that spiked in mid-February, when fighting in Libya squeezed off shipments that had supplied nearly 2 percent of the world's oil. A percentage of the price from every barrel of oil produced in the state -- now fetching about $104 each -- goes into the state's Economic Stabilization Fund, commonly known as the Rainy Day Fund. It's way too early to know how big the fund will get or whether the Legislature will overcome political opposition to using it. The Texas House will take up a proposal Thursday to tap the Rainy Day Fund to pay off $3.2 billion in state debt due in August. But most experts agree: the fund will get bigger than current projections. A lot bigger. Based on an estimate of oil at $70 per barrel, the state comptroller forecast a $9.4 billion balance in the fund at the end of the next budget period. Prices have been well above that since last summer. Stuart Greenfield, an economist and former revenue estimator who worked for three Texas comptrollers, has studied the numbers and predicts the fund could reach $11.6 billion if left untouched and prices stay high. "If they take $3 billion out of it, they're still going to have a pile of money," said Greenfield, who now teaches economics at Austin Community College. House leaders say that is probably the most the fiscally conservative body is willing to spend. The Senate is looking to tap more than that, setting up a budgetary battle between the two chambers. Analysts have mixed expectations for how long high oil prices can be sustained. Amrita Sen, an oil analyst for Barclays Capital, says prices are likely to stay high for a while. That's because fundamental market variables -- like demand -- have remained strong while unrest plagues oil-producing countries. "The fundamentals were strong. If they weren't ... we wouldn't have seen this reaction," Sen said. "It's a combination of those two that's leading to prices being at current levels." She said upcoming elections in Nigeria and simmering tensions in Bahrain could keep prices high, even if Libya begins exporting oil again. But with gas prices approaching $4 a gallon, demand could take a hit before the start of the summer driving season. "These markets move on a dime," said Billy Hamilton, a former state revenue estimator who spent decades in the Texas comptroller's office. Even though Hamilton said the fund balance will likely be higher than predicted, he said years of watching the oil market have taught him to use caution. "People always say `this time it's all going to go up and it's never going to come down,' but it does tend to come down." Even so, for lawmakers writing the next two-year state budget, the money isn't there until Comptroller Susan Combs says it's there. So far, she's sticking with the $9.4 billion estimate she made in January, a report that included a prescient caveat. "If the price of oil, however, were to rise and remain above $100 per barrel, the near-term implications could be positive for the state," she wrote. "In the longer-term ... businesses and households would be burdened by increasing prices." Led by Gov. Rick Perry, fiscal conservatives say they want to keep enough money in the fund to help the state in the event of a hurricane or other emergency. But moderates and liberals say with a revenue shortfall that could reach as high as $27 billion when counting for population growth, the reserve fund is needed to keep schools, nursing homes and other state programs operating. The Rainy Day Fund was created by a constitutional amendment in 1987. Supporters included Perry, who was then a conservative West Texas Democrat and a rising political star. At the time, Texas was more dependent on oil and gas revenue. Decreased energy prices coupled with cost pressures from education, prisons and Medicaid pushed the Legislature to expand the sales tax that year. "You can't just go out and pass a tax bill every time you need a little bit of money," said former Rep. Stan Schlueter, who wrote the legislation in 1987 after two failed attempts in 1983 and 1985. "My intent was to smooth out the ups and downs of the economy or take care of an emergency situation. "Once we passed it, it's up to each Legislature to decide (how to use the money). It's not for me to determine."

## Ag & Biofuels

### High oil prices boost agriculture and biofuels

Kiplinger Agriculture Letter, ‘5 [9/2/2005, Alternative fuel a silver lining for farmers in high oil prices, Lexis, DS]

A silver lining for farmers in high oil prices: Biofuel demand. Farmers can expect surging demand for agriculture-based energy as countries rush to expand grain- and oilseed-based fuel alternatives. Ethanol spot prices, sliding to $1.35/gal. in June, are already over $2. Ethanol's demand on sugar supplies is part of the silver lining. Brazil, the world leader in sugar output, will have much less to sell. Why? Its use of sugar to make ethanol will jump 11% in the year ahead, so fuel-making will take 53% of its sugar. The reasons for high demand: 90% of its new cars in 2006 will burn ethanol. And its ethanol exports quadrupled last year and are on pace to double again by 2010.

## Aerospace

### High oil prices key to aerospace

Watkins, ‘8 – Senior Correspondent at Oil and Gas Journal [Eric, 7/21/2008, Oil & Gas Journal, “Shedding light on a dark market,” Lexis, DS]

High oil prices will be no impediment to that growth, according to another Boeing executive. To the contrary, says Boeing CEO James McNerney, soaring oil prices are an "opportunity" that will actually speed up orders for new aircraft that consume less fuel. "The high price of oil is speeding up the process of the oldest, least efficient planes being taken out of service because they are no longer profitable," McNerney told the weekly Journal du Dimanche. "We are already seeing it in the US and it's starting to happen in Europe," he said, adding that the phenomenon was "an opportunity" that "will speed up orders for more recent models, which consume 30%-40% less than the oldest planes still in service." He also told the paper that Boeing planned to launch a successor to its 737 "at the end of the next decade" with the aim of producing a plane "15% more economical" than existing aircraft. Hardly was the ink dry on those reports when news emerged that Bombardier Inc. was expected to launch its long-awaited 100-130 seat C Series aircraft--which promises to be 20% more fuel efficient than similar aircraft--ahead of the Farnborough Air Show. Attractive attributes Why would that happen? According to industry insiders, it's because the dramatic rise in world oil prices has made the aircraft's fuel-saving attributes even more attractive.

# Impact Debate

## Russian Econ

### Russian economic collapse causes global nuclear war- internal conflicts cause loose nukes

David, 99 [Steven David, Professor of Political Science at Johns Hopkins University, “Internal War: Causes and Cures,” July 1999, https://muse.jhu.edu/journals/world\_politics/related/v049/49.4er\_brown.html, DA 7/17/11]

If internal war does strike Russia, economic deterioration will be a prime cause. From 1989 to the present, the GDP has fallen by 50 percent. In a society where, ten years ago, unemployment scarcely existed, it reached 9.5 percent in 1997 with many economists declaring the true figure to be much higher. Twenty-two percent of Russians live below the official poverty line (earning less than $ 70 a month). Modern Russia can neither collect taxes (it gathers only half the revenue it is due) nor significantly cut spending. Reformers tout privatization as the country's cure-all, but in a land without well-defined property rights or contract law and where subsidies remain a way of life, the prospects for transition to an American-style capitalist economy look remote at best. As the massive devaluation of the ruble and the current political crisis show, Russia's condition is even worse than most analysts feared. If conditions get worse, even the stoic Russian people will soon run out of patience. A future conflict would quickly draw in Russia's military. In the Soviet days civilian rule kept the powerful armed forces in check. But with the Communist Party out of office, what little civilian control remains relies on an exceedingly fragile foundation -- personal friendships between government leaders and military commanders. Meanwhile, the morale of Russian soldiers has fallen to a dangerous low. Drastic cuts in spending mean inadequate pay, housing, and medical care. A new emphasis on domestic missions has created an ideological split between the old and new guard in the military leadership, increasing the risk that disgruntled generals may enter the political fray and feeding the resentment of soldiers who dislike being used as a national police force. Newly enhanced ties between military units and local authorities pose another danger. Soldiers grow ever more dependent on local governments for housing, food, and wages. Draftees serve closer to home, and new laws have increased local control over the armed forces. Were a conflict to emerge between a regional power and Moscow, it is not at all clear which side the military would support. Divining the military's allegiance is crucial, however, since the structure of the Russian Federation makes it virtually certain that regional conflicts will continue to erupt. Russia's 89 republics, krais, and oblasts grow ever more independent in a system that does little to keep them together. As the central government finds itself unable to force its will beyond Moscow (if even that far), power devolves to the periphery. With the economy collapsing, republics feel less and less incentive to pay taxes to Moscow when they receive so little in return. Three-quarters of them already have their own constitutions, nearly all of which make some claim to sovereignty. Strong ethnic bonds promoted by shortsighted Soviet policies may motivate non-Russians to secede from the Federation. Chechnya's successful revolt against Russian control inspired similar movements for autonomy and independence throughout the country. **If these rebellions spread and Moscow responds with force, civil war is likely**. Should Russia succumb to internal war, the consequences for the United States and Europe will be severe. A major power like Russia -- even though in decline -- does not suffer civil war quietly or alone. An embattled Russian Federation might provoke opportunistic attacks from enemies such as China. Massive flows of refugees would pour into central and western Europe. Armed struggles in Russia could easily spill into its neighbors. **Damage from the fighting, particularly attacks on nuclear plants, would poison the environment of much of Europe and Asia.** Within Russia, the consequences would be even worse. Just as the sheer brutality of the last Russian civil war laid the basis for the privations of Soviet communism, a second civil war might produce another horrific regime. M**ost alarming is the real possibility that the violent disintegration of Russia could lead to loss of control over its nuclear arsenal**. No nuclear state has ever fallen victim to civil war, but even without a clear precedent the grim consequences can be foreseen. Russia retains some 20,000 nuclear weapons and the raw material for tens of thousands more, in scores of sites scattered throughout the country. So far, the government has managed to prevent the loss of any weapons or much material. If war erupts, however, Moscow's already weak grip on nuclear sites will slacken, making weapons and supplies available to a wide range of anti-American groups and states. Such dispersal of nuclear weapons represents the greatest physical threat America now faces. And it is hard to think of anything that would increase this threat more than the chaos that would follow a Russian civil war.

### Economic downturn causes isolationism and nuclear war

Friedberg, 8 [Aaron Friedberg, Professor of Politics and IR at Princeton, and Gabriel Schoenfeld, Visiting Scholar at the Witherspoon Institute, “The Dangers of a Diminished America,” Wall Street Journal, October 21, 2008, http://online.wsj.com/article/SB122455074012352571.html/, DA 7/18/11]

One immediate implication of the crisis that began on Wall Street and spread across the world is that the primary instruments of U.S. foreign policy will be crimped. The next president will face an entirely new and adverse fiscal position. Estimates of this year's federal budget deficit already show that it has jumped $237 billion from last year, to $407 billion. With families and businesses hurting, there will be calls for various and expensive domestic relief programs. In the face of this onrushing river of red ink, both Barack Obama and John McCain have been reluctant to lay out what portions of their programmatic wish list they might defer or delete. Only Joe Biden has suggested a possible reduction -- foreign aid. This would be one of the few popular cuts, but in budgetary terms it is a mere grain of sand. Still, Sen. Biden's comment hints at where we may be headed: toward a major reduction in America's world role, and perhaps even a new era of financially-induced isolationism.  Pressures to cut defense spending, and to dodge the cost of waging two wars, already intense before this crisis, are likely to mount. Despite the success of the surge, the war in Iraq remains deeply unpopular. Precipitous withdrawal -- attractive to a sizable swath of the electorate before the financial implosion -- might well become even more popular with annual war bills running in the hundreds of billions.  Protectionist sentiments are sure to grow stronger as jobs disappear in the coming slowdown. Even before our current woes, calls to save jobs by restricting imports had begun to gather support among many Democrats and some Republicans. In a prolonged recession, gale-force winds of protectionism will blow.  Then there are the dolorous consequences of a potential collapse of the world's financial architecture. For decades now, Americans have enjoyed the advantages of being at the center of that system. The worldwide use of the dollar, and the stability of our economy, among other things, made it easier for us to run huge budget deficits, as we counted on foreigners to pick up the tab by buying dollar-denominated assets as a safe haven. Will this be possible in the future?  Meanwhile, traditional foreign-policy challenges are multiplying. The threat from al Qaeda and Islamic terrorist affiliates has not been extinguished. Iran and North Korea are continuing on their bellicose paths, while Pakistan and Afghanistan are progressing smartly down the road to chaos. Russia's new militancy and China's seemingly relentless rise also give cause for concern.  If America now tries to pull back from the world stage, it will leave a dangerous power vacuum. The stabilizing effects of our presence in Asia, our continuing commitment to Europe, and our position as defender of last resort for Middle East energy sources and supply lines could all be placed at risk.  In such a scenario there are shades of the 1930s, when global trade and finance ground nearly to a halt, the peaceful democracies failed to cooperate, and aggressive powers led by the remorseless fanatics who rose up on the crest of economic disaster exploited their divisions. Today we run the risk that rogue states may choose to become ever more reckless with their nuclear toys, just at our moment of maximum vulnerability.  The aftershocks of the financial crisis will almost certainly rock our principal strategic competitors even harder than they will rock us. The dramatic free fall of the Russian stock market has demonstrated the fragility of a state whose economic performance hinges on high oil prices, now driven down by the global slowdown. China is perhaps even more fragile, its economic growth depending heavily on foreign investment and access to foreign markets. Both will now be constricted, inflicting economic pain and perhaps even sparking unrest in a country where political legitimacy rests on progress in the long march to prosperity.  None of this is good news if the authoritarian leaders of these countries seek to divert attention from internal travails with external adventures.

### Oil exporters’ economies are more vulnerable. A dip in oil revenues would trigger civil wars causing worse shocks

Jaffe and Manning 00 (Amy Myers, Director of the Energy Program at Rice University, and Robert A., Sr. Fellow at the Council on Foreign Relations, Foreign Affairs, Jan/Feb)

Neither, frankly, is Washington. The political reverberations of a sustained oil glut should not be underestimated. Several important regimes -- in the Gulf states, Russia, the former Soviet republics, and such key Latin American countries as Venezuela, Mexico, and Colombia -- count on healthy oil revenues for calming restive populations, assuaging social tensions, and in some cases, nation-building writ large. Without the salve of rising oil revenues, many of these nations can expect to see heightened political instability, social unrest, or even civil wars, which could be grimly reminiscent of recent Balkan slaughters. In the Gulf, such instability could trigger the next oil shocks in the form of short-term disruptions. The 1991 Gulf War demonstrated the West's capacity to defend important oil regions from traditional external threats like the Iraqi invasion of Kuwait. But America's painful experiences with revolutionary Iran in the late 1970s and the Balkans in the 1990s are grim reminders of how hard it can be to cope with internal instability. The new dynamics of the global oil market have profound implications for U.S. national security policy. Washington had better gird itself.

## Russian Relations

### Sustained US-Russian relations prevent multiple scenarios of war and ensure US Leadership

**Nixon Center 03** (The Commission on America’s National Interests and Russia, “Advancing American Interests and the U.S.-Russian Relationship Interim Report”, http://www.nixoncenter.org/publicants/monographs/FR.htm, September 2003) SV

The proper starting point in thinking about American national interests and Russia—or any other country—is the candid question: why does Russia matter?  How can Russia affect vital American interests and how much should the United States care about Russia?  Where does it rank in the hierarchy of American national interests? As the Report of the *Commission on American National Interests* (2000) concluded, Russia ranks among the few countries whose actions powerfully affect American vital interests.  Why? First, Russia is a very large country linking several strategically important regions.  By virtue of its size and location, Russia is a key player in Europe as well as the Middle East and Central, South and East Asia.  Accordingly, Moscow can substantially contribute to, or detract from, U.S. efforts to deal with such urgent challenges as North Korea and Iran, as well as important longer term problems like Iraq and Afghanistan.  In addition, Russia shares the world’s longest land border with China, an emerging great power that can have a major impact on both U.S. and Russian interests.  The bottom line is that notwithstanding its significant loss of power after the end of the Cold War, Moscow’s geopolitical weight still exceeds that of London or Paris. Second, as a result of its Soviet legacy, Russia has relationships with and information about countries that remain comparatively inaccessible to the American government, in the Middle East, Central Asia and elsewhere.  Russian intelligence and/or leverage in these areas could significantly aid the United States in its efforts to deal with current, emerging and still unforeseen strategic challenges, including in the war on terrorism. Third, today and for the foreseeable future Russia’s nuclear arsenal will be capable of inflicting vast damage on the United States.  Fortunately, the likelihood of such scenarios has declined dramatically since the Cold War.  But today and as far as any eye can see the U.S. will have an enduring vital interest in these weapons not being used against America or our allies.  Fourth, reliable Russian stewardship and control of the largest arsenal of nuclear warheads and stockpile of nuclear materials from which nuclear weapons could be made is essential in combating the threat of “loose nukes.”  The United States has a vital interest in effective Russian programs to prevent weapons being stolen by criminals, sold to terrorists and used to kill Americans. Fifth, Russian stockpiles, technologies and knowledge for creating biological and chemical weapons make cooperation with Moscow very important to U.S. efforts to prevent proliferation of these weapons.  Working with Russia may similarly help to prevent states hostile to the United States from obtaining sophisticated conventional weapons systems, such as missiles and submarines. Sixth, as the world’s largest producer and exporter of hydrocarbons (oil and gas), Russia offers America an opportunity to diversify and increase supplies of non-OPEC, non-Mid-Eastern energy. Seventh, as a veto-wielding permanent member of the United Nations Security Council, Russia can substantially ease, or complicate, American attempts to work through the UN and other international institutions to advance other vital and extremely important U.S. interests.  In a world in which many are already concerned about the use of U.S. power, this can have a real impact on America’s success at providing global leadership.  More broadly, a close U.S.-Russian relationship can limit other states’ behavior by effectively eliminating Moscow as a potential source of political support.

### US-Russian war causes extinction and is an existential threat

Bostrum 2 [Nick Bostrum, professor of philosophy - Oxford University, “Existential Risks: Analyzing Human Extinction Scenarios and Related Hazards,” March 2002, Journal of Evolution and Technology, http://www.nickbostrom.com/existential/risks.html]

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

### US-Russia relations are key to middle east stability, global energy security, curbing nationalism, global warming, pandemic diseases, prolif, and the global economy

**Graham 8** (Thomas Graham, foreign service officer on academic leave with RAND in Moscow from 1997 to 1998. He previously had several assignments in the U.S. Embassy in Moscow, including head of the Political/Internal Unit and acting political counselor. Between tours in Moscow, he worked on Russian/Soviet affairs as a member of the policy planning staff of the State Department and as a policy assistant in the Office of the Under Secretary of Defense for Policy. Mr. Graham has a Ph.D. in political science from Harvard University and a B.A. in Russian studies from Yale University. July 2008 http://csis.org/files/media/csis/pubs/080717\_graham\_u.s.russia.pdf)

What trends? Simply put, the world has entered a period of great flux and upheaval of uncertain duration. We are witnessing an historic shift in global dynamism from Europe to the Asia-Pacific region, initially in the economic realm, but one that will eventually reorder the geopolitical realm. The middle east – or more broadly the Muslim world – is engaged in an epic battle between tradition and modernization that jeapoardizes global energy sucirty**.** Although the nation-state, the fundamental unit of the international system since the westphalian peace of 1648, is thrivi ng in East Asia and the United states , it is under mounting strain as Europe seeks to create a supranational structure and artifical states in the Middle East begin to break down along sectarian and ethnic lines. Globalization has fueled an unprecedented period of economic growth around the world while unleashing the forces of disorder – terrorism, transnational crime – and rasing challenges beyond the capacity of inddividual states or current international organizations to manage – global warming, pandemic diseases, proliferation of the materials and know how to build weapons of mass destruction (WMDs). With the economic growth has can a historic transfer of wealth from the West to energy exporters, such as russia, and rising manufacturing powers, such as China. In this uncertain world, the US and russia are not strategic rivals, and neither poses a strategic threat to the other ( despite some overwrought Russian rhetoric to the contrary) , in contrast to the situation during the cold war. Rather, they share a set of common strategic challenges. Russia, by virtue of ite geographic location, and the US, by virtue of its global role, must build new relationships with a Europe that is expanding and deepening; they both must find a way to cope with the growing instability in the middle east, the challenge to energy security that implies, and, at least for Russia, the threat that that instability will infect Russia’s southern reaches ; and they both must manage relations with a rising china. In addition, both countries must deal with the dark side of globalization, and both have a keen interest in the role and effectiveness of the instituions of global governance, such as the UN and G8 the world bank and the IMF. Given their standing as the world’s two leading nuclear powers, the United States and Russia are each Indispensable to dealing with the problems of proliferation of WMDs, nuclear terrorism and strategic stability. The US, as the world’s largest consumer of energy, and Russia, as the largest producer of hydrocarbons, are essential to any discussion of energy security and energy’s future. Global economic dynamics and transfers of wealth will require bringing Russia, along with china, india, and others, into a more central role in managing the global economy, a service long performed by Europe and the United States. In east asia, to create a favorable new equilibirum, Russia has an interest in a strong power – that is, the US – acting as a moderating influence on China, and the US has no interest in a weaking russian presence in Siberia and the Russian far east, regions rich in the natural resources that fuel modern economies. In the Middle East, both the US and russia have levers that could help promote stability, if the two countries were working in concert, or fuel conflict, if they were not. In europe, Russian energy is critical to economic well-being and the US remains essential to security and stability. On a range of other issues – for example, civil nuclear energy, pandemic diseases, climate change – each country is capable of making a major contribution, given the vast scientific talent of each. In the former soviet space, both countries will be critical to building lasting security economic structures.

### US-Russian cooperation, specifically in South and central Asia, is key to prevent terrorism

**Hahn 9** (Gordon M Hahn 5/21/2009 senior researcher, Monterey Terrorism Research and Education Program, and visiting assistant professor, Graduate School of International Policy Studies, Monterey Institute of International Studies, California; senior researcher, Center for Terrorism and Intelligence Studies (CETIS), Akribis Group, California; and analyst/consultant. “U.s. Russian relations and the war against jihadism" http://www.tcf.org/publications/internationalaffairs/hahn.pdf p. 4-5)

Changes in the structure of the jihadist movement since the September 11 attacks strengthen the rationale for broader and deeper U.S.-Russian coopera­tion. The leading role of al Qaeda in the global jihad has weakened, and a more decentralized network of still-allied but more isolated and self-sufficient jihad­ist nodes such as the “Caucasus Emirate” has emerged. In part, this restructur­ing is a result of better intelligence, police, and immigration performance in the West and Russia. However “leaderless” the jihad may be, the combination of continuing mutual assistance between its local nodes requires real coordina­tion between the United States and Russia if not joint efforts in order to disrupt communications and attack more localized nodes. Strategically, Washington and Moscow are on the same page, which shows that the global jihadist threat is real and must be eliminated. But tactically, they diverge according to the extent that they each perceive one particular jihadist movement or another as a threat. With this in mind, in which regions can U.S.-Russian cooperation against jihadism be initiated and enhanced, and where is it a hopeless venture, at least at present? Jihadists outside of Eurasia writ large—including Eurasia proper, plus Iraq, Afghanistan, Pakistan, Iran, and the Persian Gulf region in general—represent little or no threat to Russia, but do threaten U.S. interests and/or those of its allies. Thus, in places such as Southeast Asia and northern Africa, there is little or no common interest or threat, though jihadist takeovers ultimately would affect both countries’ interests in the long run. In the Middle East, including Iraq, interests and perceptions diverge significantly, though again, a jihadist takeover in Iraq would have serious implications for both countries. Regarding the more immediate threats to their respective homelands, threats to one are, by all appearances, of less concern to the other, but mis­takenly so. A catastrophic terrorist attack in the United States would affect the entire world, something that the U.S. financial crisis and its spread around the globe underscored. Similarly, Russia’s own jihadist threat in the North Caucasus means that Russia, Pakistan, and India constitute the only countries that possess both a significant jihadist movement and large stockpiles of nuclear and other materials and weapons of mass destruction. Moreover, the North Caucasus mujahedin have metastasized into a threat to the United States, albeit one with limited capacity at present. In regions bordering Russia, such as Central Asia and the South Caucasus, especially Azerbaijan, deepen­ing U.S. and Western involvement creates a modus vivendi for cooperation with Moscow in the war against jihadism. In sum, South and Central Asia and the Caucasus are the two regions where sufficient common interests and threats offer realistic prospects for increased U.S.-Russian security coopera­tion against jihadism.

# Aff Answers

## High Oil Prices Bad

### High Oil Prices Kill Agriculture business

**Mark 6** (Jason Mark, AlterNet Co-author, “Will the End of Oil Be the End Of Food?”, http://www.alternet.org/story/41023/?page=entire, August 31, 2006) SV

Farmer Richard Randall doesn't believe in the notion of "peak oil," the argument that civilization will soon experience an acute -- and irreversible -- petroleum scarcity that will fundamentally alter our way of life. A 61-year-old wheat and sorghum grower from Scott City, Kan., Randall says he's seen high oil prices before, and that today's expensive petroleum is just part of a natural market cycle that will eventually adjust itself, leading to lowered fuel costs. "I think there's plenty of oil there," Randall said recently. "I feel that if we allow the marketplace to work without interruption in the supply, we will find a level. It's not going to be as low as it was, but it will come down. We do need to produce oil where we can." Randall may not be certain when oil prices will level out, but it's abundantly clear to him that $70/barrel petroleum is taking a huge bite out of his business. Nearly every part of his farming operation is being impacted. The price for the diesel fuel that runs the tractors and trucks on his 4,500-acre farm have more than tripled in the last four years, rising from 80 cents per gallon to close to $3. Fertilizer prices are also up sharply. Since synthetic fertilizers are made from natural gas, they too are impacted by higher fossil fuel prices; the cost of fertilizer has gone from about $160 per ton to $460 per ton in the last three years. Smaller, organic growers are also feeling a pinch from costlier petroleum. The price for the plastic drip irrigation tape commonly used on organic fruit and vegetable farms is up 20 percent from two years ago.