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#### Oil prices high now: middle eastern tensions.

AAP  July 20 2012 (<http://www.heraldsun.com.au/business/breaking-news/oil-at-seven-week-highs-on-mideast-tension/story-e6frf7ko-1226430489355>, The Herald Sun, "Oil hit two month high")

In New York, light sweet crude for delivery in August, on Thursday soared $US2.79 to $US92.66 a barrel, the highest close since May 17. In London, Brent North Sea oil for delivery in September jumped $US2.64 to $US107.80 per barrel, the highest close since May 22."Prices have climbed," said Commerzbank analyst Carsten Fritsch, pointing to rising awareness of "geopolitical risks." "The conflict in Syria, which has already been under way for 16 months, appears to be escalating."The Iran conflict is also coming into increasingly sharp focus, Israel having blamed Iran for the attack on Israeli tourists in Bulgaria." Tensions in Syria rose as fighting in the capital Damascus entered its fifth day, Syrians fled across the border into Lebanon in their tens of thousands and the Syrian opposition was said to be in control of all the border crossings between Iraq and Syria. World powers remained in deep disagreement on how to end the fighting, with Russia and China vetoing a Western-backed UN Security Council resolution that paved the way for sanctions and moved a step closer toward military intervention. US Ambassador to the United Nations Susan Rice said the UN Security Council had failed on Syria."We will intensify our work with a diverse range of partners outside the Security Council to bring pressure to bear on the Assad regime and to deliver assistance to those in need." All this came a day after a devastating bomb attack that killed three of the regime's top security officials. "Syrian oil production capacity is only around 400,000 barrels per day but when a suicide bomber kills a minister who was a close ally of the ruler of the country, it is inevitable that oil prices go up," said PVM Oil Associates analyst Tamas Varga. Meanwhile, Israel accused Iran and Lebanese group Hezbollah of carrying out a deadly attack against Israelis in Bulgaria, setting the stage for new tensions in the Middle East. Israeli Prime Minister Benjamin Netanyahu said "all the signs point to Iran," linking Wednesday's blast to a string of attempts to attack Israelis around the world. "Israel will respond forcefully to Iranian terror." Iran responded by saying it strongly condemns "all terrorist acts." Market sentiment was also boosted after figures showed American crude stocks sank 800,000 barrels in the week ending July 13 for a fourth weekly decline in a row. Prices had risen at the start of the week on tensions over major crude producer Iran, which said that US military deployment in the Gulf was "a source of insecurity." The US navy has been building up its forces in the oil-rich Gulf region amid mounting tensions with Iran over its controversial nuclear program. Tehran has warned it could close the Strait of Hormuz, in the southern Gulf, if international sanctions begin to bite, potentially disrupting shipping and world oil supplies through the strategic waterway¶

#### Modernizing infrastructure and reducing congestion drastically cuts US oil use.

Millar 2008 (William President, American Public Transportation Association, CQ Congressional Testimony September 9, 2008 Tuesday PUBLIC TRANSPORTATION AND FOREIGN OIL Committee on Senate Banking, Housing and Urban Affairs September 09, 2008)

Americans are changing their travel behavior because they realize that taking transit, using a bicycle or walking can dramatically reduce their commuting costs. On average, a transit user saves more than $9,596 per year by taking public transportation instead of driving based on today's gas prices. These savings are important not only for individuals and families, they are important when we consider the urgent need for the United States to attain energy independence. By reducing travel and congestion on roadways and supporting more efficient land use patterns, transit saves the U.S. 4.2 billion gallons of gasoline each year, the equivalent of more than 11 million gallons per day. That amount of savings is equivalent to oil refined from 102 supertankers, or more than three times the amount of oil we import from Kuwait each year.

#### High prices keep OPEC competitive - US demand keeps relations with Saudi Arabia stable – Any decrease will put both at risk.

Bond 2012 (Steven, staff writer, "Saudi oil production to stay high on US demand, Iran sanctions" AME http://www.ameinfo.com/293804.html)

Last week oil prices rose 2% on continued disputes over Iran's nuclear program and a weaker dollar, and while Saudi Arabia still maintain a flexibility in their capacity, the US has more oil imports on order as of July. This is revenue for the kingdom but has wider implications, explains Dunkley: "On the one hand, you have the United States, an ally, asking for increased supply to make up for lost Iranian barrels. This is the second time in two years the United States has asked the Saudis to boost supply. Of course the argument here is if the price rises further, it will cause a snapback to global recession which will hurt everybody." "One added dimension of the global picture is Opec as a cartel is facing what could be the beginning of an existential threat from North American tight oil production. There is a chorus of voices who believe that within the next five to ten years, Opec imports won't even flow to the U.S Gulf Coast." The ramifications for Saudi Arabia are serious and also for what Opec calls 'security of demand'. Dunkley's view is that the kingdom has every incentive to keep oil prices high now, with the distinct possibility that shale oil could come on the scene and cause prices to be slashed. However unclear the situation is, Opec needs to 'start preparing for more non-Opec competition."

#### Relations key to stop Saudi prolif

BORGER 11 (Julian, diplomatic editor, "A Saudi Bomb?" The Guardian, http://www.guardian.co.uk/world/2011/jun/29/saudi-arabia-prince-turki-arab-spring-iran/print)

As for its own weapon, Saudi Arabia has declared it will spend $300bn on 16 nuclear reactors, for which it is about to open bids. But they would be turnkey projects with safeguards making it almost impossible to use the fuel to make weapons. Building a Saudi bomb would require starting a uranium enrichment programme from scratch. Even with unlimited resources that would take years.¶ In the short term, Saudi Arabia could look to other states. Since the Arab spring, the monarchy has become disillusioned with Washington's capacity to defend it. Instead, it may see its best option for a rapid response (to an Iran nuclear test, for example) as Pakistan. Saudi Arabia is reported to have an "option" on Pakistan's nuclear capability, in return for financing Pakistan for decades. And the US would find it hard to stop such destabilising nuclear co-operation. Its influence with both the Pakistanis and the Saudis has frayed considerably.

#### Saudi prolif leads to nuclear war

London 10 (Herbert, professor emeritus of NYU, "The coming crisis in the Middle East," Hudson Institute, http://www.hudson.org/index.cfm?fuseaction=publication\_details&id=7101&pubType=HI\_Opeds)

For Sunni nations like Egypt and Saudi Arabia regional strategic vision is a combination of deal making to offset the Iranian Shia advantage and attempting to buy or develop nuclear weapons as a counter weight to Iranian ambition. However, both of these governments are in a precarious state. Should either fall, all bets are off in the Middle East neighborhood. It has long been said that the Sunni “tent” must stand on two legs, if one, falls, the tent collapses.   Should that tent collapse and should Iran take advantage of that calamity, it could incite a Sunni-Shia war. Or feeling its oats and no longer dissuaded by an escalation scenario with nuclear weapons in tow, war against Israel is a distinct possibility. However, implausible it may seem at the moment, the possible annihilation of Israel and the prospect of a second holocaust could lead to a nuclear exchange.

# Uniqueness

### Uniqueness: Prices High

#### US demand keeping prices high and Saudi production levels stable

GUE 7/15, editor of Personal Finance, (Elliot, "The supply side of Oil," http://seekingalpha.com/article/721841-the-supply-side-of-oil)

The fundamentals in the global oil market haven't shifted to the extent suggested by the recent decline in prices. Investors have fixated on the potential for a global economic slowdown to reduce crude oil demand, but emerging-market consumption remains robust. The decline in EU oil demand won't have much of an impact on the global market. Unless the US joins Europe in recession-an unlikely scenario-global demand growth will likely exceed non-OPEC supply, leaving OPEC to fill in the gap. I don't expect Saudi Arabia and the rest of OPEC to maintain production at current elevated levels if prices decline further. Against this backdrop, crude oil prices appear close to a bottom. Although a selloff in equities markets could lead to further downside for oil prices, Brent crude oil should find support at the mid- to high $80s per barrel and WTI should find support in the mid- to high $70s per barrel.

#### High oil prices now; multiple reasons.

Arab Times 12 ("Saudi favors $100 pb oil, says can pump more fast" 1/16, http://www.arabtimesonline.com/NewsDetails/tabid/96/smid/414/ArticleID/178502/reftab/69/Default.aspx)

Riyadh has not specified a preferred oil price since it said it favoured $75 per barrel in November 2008. Oil prices have risen sharply since then and Saudi Arabia’s national budgetary requirements are now estimated by bankers at about $90 a barrel. Meanwhile, a worsening of the euro zone debt crisis would further reduce the region’s oil demand and could impact consumption in emerging economies that are driving the increase in global fuel use, OPEC said on Monday. In a monthly report, the Organization of the Petroleum Exporting Countries (OPEC) trimmed its forecasts for world oil demand growth in 2012 by 10,000 barrels per day (bpd) to 1.06 million bpd. OPEC said oil demand in European members of the Organisation for Economic Co-operation and Development (OECD) was expected to fall by 160,000 bpd in 2012 and there was a risk the euro-zone economy could contract this year. “If the situation were to worsen, the effect on the oil market could be seen not only through a further decline in oil demand in Europe but also with spillover effects on oil demand in the emerging economies, amid an adequately supplied market,” OPEC said. OPEC, source of more than a third of the world’s oil, follows the US government’s Energy Information Administration in lowering its demand outlook for 2012. The EIA last week cut its 2012 global growth forecast by 120,000 bpd. The OPEC report added to signs the group is pumping more than the target of 30 million barrels daily it adopted at a Dec. 14 meeting, as oil prices well above $100 a barrel provide little incentive for supply cuts. It said that according to secondary sources, OPEC’s crude oil production rose in December to 30.82 million bpd, the highest since October 2008, largely in line with a Reuters survey published on Jan. 4. Oil prices rose on Monday as the market reacted to potential supply disruptions in Nigeria and Iran, while keeping a watch over fresh eurozone strains after last week’s ratings downgrades, analysts said.

#### Oil Prices high: demand

Market Watch, July 20, 2012, (Oil Stocks on the Upswing as Oil Prices Rebound on Rising Demand), Wall Street Journal, <http://www.marketwatch.com/story/oil-stocks-on-the-upswing-as-oil-prices-rebound-on-rising-demand-2012-07-20>

NEW YORK, NY, Jul 20, 2012 (MARKETWIRE via COMTEX) -- Oil stocks have been on the upswing recently as a result of rebounding oil prices. Oil prices rallied above $90 per barrel after the Energy Information Administration reported oil demand in the U.S. in rising. "We keep talking about the slow economy, but the market is seeing some improved oil demand today," said Phil Flynn, an analyst at Price Futures Group. The Paragon Report examines investing opportunities in the Oil & Gas Industry and provides equity research on Anadarko Petroleum Corporation APC -0.73% and Nabors Industries Ltd. NBR -0.90% . The IEA, in their weekly report Wednesday, said that U.S. oil supplies decreased by 800,000 to 377.4 million barrels. While the decline was under the 1.1 million barrels projected by analysts, it marked the third consecutive week in which inventories have fallen. The IEA also reported last week that they predict global oil demand to rise by 1 million barrels a day in 2013. A report released last week showed that the IEA forecasts global oil demand in 2013 to average 90.9 barrels a day, a 1.1 percent increase. While demand is on the rise it is still "well below" the levels seen before the start of the financial crisis.

#### Oil Prices High now because of Middle Eastern Tension

[Cattaneo](http://business.financialpost.com/author/ccattaneo/)  Jul 19, 2012 (Claudia, journalist for Financial Post, Financial Post, <http://business.financialpost.com/2012/07/19/oil-prices-hit-8-week-high-as-mideast-tensions-raise-fears-of-supply-disruptions/?__lsa=ad7d85b9>, Oil prices hit 8-week high as Mideast tensions raise fears of supply disruptions)

Oil prices defied expectations and raced to an eight-week high on Thursday, up for a seventh straight session, as concerns that Middle East tensions could result in supply disruptions trumped worries about slumping demand due to the weak global economy. Crude for August delivery jumped US$2.79, or 3.1%, to settle at US$92.66 a barrel on the New York Mercantile Exchange. The price has risen 10% in seven days of gains. Brent oil for September advanced US$2.64, or 2.5%, to settle at US$107.80 a barrel on the London-based ICE Futures Europe exchange. “People are getting wrapped up in some of these geopolitical tensions and that has driven a whole pile of short covering,” said Martin King, vice-president of institutional research at First Energy Capital Corp. in Calgary. Also, “there seems to be vague hope floating around in the market that there will be some form of quantitative easing [by the U.S. Federal Reserve] at some point, and that is feeding on itself.” Mr. King said he remains cautious about oil prices and sees the oil surge as “a bit overdone.” Prices of Canadian crudes also moved up, as did the Canadian dollar, which rose 0.29¢ to US99.23¢, its highest close since May 15. The differential between Canadian crude and U.S. crude has narrowed from early in the year when it as about $35, but remains in the $20 range. The geopolitical premium on oil widened after Israeli Prime Minister Benjamin Netanyahu blamed Lebanon’s Iranian-backed Hezbollah organization for Wednesday’s killing of Israeli tourists in Bulgaria and threatened a forceful response. In Damascus, Syrian government forces battled rebels in retaliation for a blast that killed three top anti-insurgency leaders. “People are very concerned about what’s going on in the Middle East and that’s giving oil a boost,” said Jason Schenker, president of Prestige Economics LLC, an Austin, Tex.- based energy consultant. “Iran is back in the spotlight and the situation in Syria is deteriorating.” The Bulgaria incident comes amid heightened tension over the Islamic Republic’s nuclear program, which Israel says is intended to produce weapons for use against the Jewish state. Iran has threatened to close the Strait of Hormuz, a transit point for about 20% of the world’s traded crude, as the European Union imposed sanctions on Iranian oil on July 1. Canadian energy stocks were also up, but more modestly. Suncor Energy Inc. rose 1.29% to $30.59, and Canadian Natural Resources Ltd. was up 3.24% to close at $28.98. “Certainly equity investors are saying, it’s nice to see, but it doesn’t seem to be driven by any kind of pure fundamental issues related to tighter supply demand fundamentals, plus a lot of people are still reluctant to put any money to work in the market given the broader macro uncertainties issues around debt in the U.S. and Europe,” Mr. King said. Frank Atkins, professor at the University of Calgary specializing in world oil markets, said we shouldn’t expect, at least in the immediate future, any sort of explosive growth in the price of oil. Mr. Atkins said he expects prices to hover around US$90 a barrel for the rest of the year. “$90 is reasonable given the uncertainties in demand and the fact that nobody really seems to know what the U.S. economy is actually doing other than it is not in a recession and the U.S. consumes 25% of the world’s oil.” Canadian energy companies are expected to report weaker second-quarter earnings over the next couple of weeks, reflecting weaker oil prices, low natural gas prices and wide differentials between Canadian and U.S. crudes. CIBC World Markets reduced its oil price expectations this week. It sees Brent prices retreating to US$104 a barrel in 2012, down US$13.50 from its previous estimate, and WTI softening to US$90, down US$12.50, as a result of “growing macro concerns.” “Should macro concerns ease as they did in [the second half of 2011], we could see WTI pricing back in the US$100/bbl range as supply/demand balances should tighten and spare capacity remains relatively low,” CIBC said in a note. “On the flip side, oil could trade lower if some resolution is reached with Iran, particularly if Saudi Arabia does not curtail production quickly.”

#### Middle East instability causes high oil prices

Oil & Gas Eurasia July 23 12, 7.23.12 (Oil prices hit 2 month high on Mideast tensions http://www.oilandgaseurasia.com/news/p/0/news/15716) ejj

World oil prices hit 2 month highs as traders fretted over the impact of simmering geopolitical tensions in the crude rich Middle East.  In New York, light sweet crude for delivery in August soared $2.79 to $92.66 per barrel the highest close since May 17. In London Brent North Sea oil for delivery in September jumped $2.64 to $107.80 per barrel the highest close since May 22.  Carsten Fritsch, analyst of Commerzbank, said that «Prices have climbed. The conflict in Syria which has already been under way for 16 months appears to be escalating. The Iran conflict is also coming into increasingly sharp focus, Israel having blamed Iran for the attack on Israeli tourists in Bulgaria».  Tensions in Syria rose as fighting in the capital Damascus entered its fifth day, Syrians fled across the border into Lebanon in their tens of thousands and the Syrian opposition was said to be in control of all the border crossings between Iraq and Syria.  World powers remained in deep disagreement on how to end the fighting with Russia and China vetoing a Western backed UN Security Council resolution that paved the way for sanctions and moved a step closer toward military intervention.  Susan Rice, US Ambassador to the United Nations, said that the UN Security Council had failed on Syria. «We will intensify our work with a diverse range of partners outside the Security Council to bring pressure to bear on the Assad regime and to deliver assistance to those in need».  Mr Tamas Varga analyst of PVM Oil Associates said that «Syrian oil production capacity is only around 400,000 barrels per day but when a suicide bomber kills a minister who was a close ally of the ruler of the country, it is inevitable that oil prices go up».  Meanwhile, Israel accused Iran and Lebanese group Hezbollah of carrying out a deadly attack against Israelis in Bulgaria setting the stage for new tensions in the Middle East.  Mr Benjamin Netanyahu PM of Israel said that «all the signs point to Iran linking Wednesday's blast to a string of attempts to attack Israelis around the world. Israel will respond forcefully to Iranian terror. Iran responded by saying it strongly condemns all terrorist acts».  Market sentiment was also boosted after figures showed American crude stocks sank 800,000 barrels in the week ending July 13th 2012 for a fourth weekly decline in a row. Prices had risen at the start of the week on tensions over major crude producer Iran which said that US military deployment in the Gulf was a source of insecurity».

#### Oil prices hit two-month high

AAP  July 20 2012 (<http://www.heraldsun.com.au/business/breaking-news/oil-at-seven-week-highs-on-mideast-tension/story-e6frf7ko-1226430489355>, The Herald Sun, Oil hit two month high)

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#### Oil prices high now

Kahn 7/19 (Chris, Energy writer for the AP, MSNBC , <http://www.msnbc.msn.com/id/48226519/ns/business-oil_and_energy/t/oil-price-climbs-above-stronger-us-demand/#.UAyyW2GJdV4>, Oil above $90 in Asia for first time since May)

Oil rose above $90 a barrel in Asia for the first time since May after the U.S. government said oil demand is on the rise and regional stock markets rebounded on strong earnings and improved U.S. economic data. Benchmark crude was up 47 cents at $90.34 a barrel at midday Bangkok time in electronic trading on the [New York Mercantile Exchange](http://www.msnbc.msn.com/id/48226519/ns/business-oil_and_energy/t/oil-price-climbs-above-stronger-us-demand/). The contract rose 65 cents to settle at $89.87 per barrel in New York on Wednesday. Brent crude was up 76 cents at $105.92 a barrel on the ICE futures exchange in London. The [Energy Information Administration](http://www.msnbc.msn.com/id/48226519/ns/business-oil_and_energy/t/oil-price-climbs-above-stronger-us-demand/) reported that average oil demand increased last week in the U.S. for the third week in a row. Oil demand had been down most of the year, when compared with 2011, as manufacturing activity slowed and drivers cut back on travel. EIA's weekly petroleum report also noted a surprise drop in gasoline supplies last week as refineries pulled back on production. Oil supplies also fell, though the drop was less than what analysts expected. Oil is likely to remain near $90 in the near term due to the signs of improving demand in the EIA report, energy analysts at the The Schork Group said in a report. Also helping sentiment in the oil market were gains in Asian [stock markets](http://www.msnbc.msn.com/id/48226519/ns/business-oil_and_energy/t/oil-price-climbs-above-stronger-us-demand/) after strong earnings from IBM and Ebay and a Commerce Department report that U.S. home builders broke ground last month on the most homes and apartments in nearly four years. In other futures [trading](http://www.msnbc.msn.com/id/48226519/ns/business-oil_and_energy/t/oil-price-climbs-above-stronger-us-demand/), heating oil was up 0.8 cent to $2.885 a gallon and gasoline added 0.7 cent to $2.782 a gallon. Natural gas fell 1.8 cent to $2.955 per 1,000 cubic feet.

#### Oil prices high and stable

Herron 11 ([5/11/11, James, FWN Financial News, “DJ UPDATE: OPEC: Balance In Oil Supply, Demand To Stabilize Prices”, <http://www.firstenercastfinancial.com/news/story/43040-opecbalance-oil-supply-demand-stabilize-prices>)

LONDON (Dow Jones)--A good balance between oil supply and demand backed up by adequate inventories and spare production capacity show that last week's big drop in oil prices was "inevitable" and "in line with short-term market fundamentals," the Organization of Petroleum Exporting Countries said Wednesday in its monthly report. ¶ Although benchmark oil price Brent crude remains above $115 a barrel, the exporters' group stepped back from suggestions made last month that high oil prices were hurting global demand. Stronger demand growth in emerging economies may now offset any reduction caused elsewhere by higher prices, it said. ¶ It also contains pointed criticism of the U.S. Energy Information Administration over the accuracy of its oil demand data. Late last month the EIA made a sharp downward revision in U.S. oil demand for February, slashing its estimate of demand growth by 600,000 barrels a day. ¶ "This exaggeration in the oil demand assessment puts extensive pressure on producers, leading to an unstable market," OPEC said. ¶ OPEC said the current balance between supply and demand, "should be sufficient to support market stability." However, data in the report also pointed to the need for future action from the group as seasonal factors are seen pushing demand much higher than its current level from July. ¶ OPEC reiterated that it stands ready to meet the world's future crude oil needs.

#### High oil prices will retain despite recession

Forbes 11 [Forbes magazine, Kenneth Rapoza – contributor to Forbes. 8/12/11. “Low Oil Prices Not Here to Stay, Says Barclays”. http://www.forbes.com/sites/kenrapoza/2011/08/12/low-oil-prices-not-here-to-stay-says-barclays/]

Enjoy the drop in oil prices, because it’s not going to last. In a 114 page global energy outlook published Thursday by Barclays Capital, international energy analysts expect the new price floor for oil to be $100 a barrell. Oil was $86 in New York, with Brent around $117 a barrel in London. “Over the next 12 months, as the current risk-off trade subsides, we expect oil prices to be on a rising trend from $100-$130 a barrel, even with potentially slower economic recovery in OECD countries,” analysts wrote about the advanced economies. Sovereign debt problems in Europe and a lackluster U.S. economy, including consumer numbers on Friday, are all bearish news and data for oil near-term. However, given the current economic situations in the world economy compared with the housing and subsequent credit bubble burst in 2008 and 2009, Barclays expects oil price pressure on the downside is much different this time around. “Global oil demand growth is on a solid upward trajectory, as structural changes in non-OECD countries underpin most of that rise,” writes Amrita Sen, a Barclays energy strategist in London. “The ineffectiveness of the supply side to catch up with it has created an extended period of supply capacity tightness, which will be apparent in 2012. Against that backdrop, key oil producers seem set on a sustained path of far higher social expenditure and therefore far higher oil price requirements…$100 oil, in our view, is the new sustainable norm.” Main Street investors can trade oil through futures, options, the iPath S&P GSCI Crude Oil (OIL) fund, or leveraged plays like ProShares Oil & Gas (DIG).

#### OPEC is steady now and is ready to respond to demand

Kole 07 [William , Associated Press Writer. “Despite rising prices, OPEC appears to be in no rush to raise its output targets,” 9/8/2007, NWI Times, <http://nwitimes.com/articles/2007/09/08/business/business/doc7e79bb33cb7ec6f28625734f00723bfd.txt>.] ejj

Despite the wide range of factors buffeting world oil markets and keeping crude prices hovering around $75 a barrel, analysts say OPEC will maintain its current output targets when oil ministers meet in Vienna next week.¶ That could change by year's end, experts said, predicting that the Organization of Petroleum Exporting Countries will be forced to increase production if demand rises and prices edge closer to $80.¶ "I think prices are going to rise, and that's probably going to force OPEC's hand," Simon Wardell, a senior energy consultant with Global Insight, told The Associated Press.¶ "If prices go toward $80, there will be a lot of pressure on OPEC to produce more," said Eshan Ul-Haq, chief analyst at PVM Oil Associates in Vienna. "$80 is the mark they'll be looking at."¶ Ahead of Tuesday's meeting, OPEC Secretary General Abdalla Salem El-Badri said he sees no need to increase output and blamed refinery problems in the U.S. -- which is not an OPEC member -- for keeping prices high.¶ Some of the 12-nation cartel's key oil ministers, including Iran and Libya, also have publicly said they believe the market is amply supplied and there is no reason to take action.¶ The Paris-based International Energy Agency has urged the group to raise crude output, arguing that global demand is likely to outstrip supply as the northern winter approaches.¶ Some OPEC members, however, have hinted that although the cartel's official output is 25.8 million barrels per day, it is actually pumping 30.3 million. OPEC produces about 40 percent of the world's crude.

### AT: Short term decline in Prices

#### Oil prices will grow regardless of current circumstance

Tse 11 [6/28, Andrea, The Street, “Safe Energy Investments for 2011: Analysts”, http://www.thestreet.com/story/11166942/1/safe-energy-investments-for-2011-analysts.html?utm\_source=feedburner&utm\_medium=feed&utm\_campaign=Feed%3A+tsc%2Ffeeds%2Frss%2FAndreaTse+(TheStreet%3A+Andrea+Tse SW]

Oil prices may be falling, but the industry is gearing up for longer-term growth, offering investors a potentially prime opportunity to profit from the energy sector. A study of capital budget expectations of more than 400 oil and gas companies published by the Barclays Capital commodities research team showed that global exploration and production spending in the industry will surpass a half a trillion dollars in 2011. Spending should rise 16% to $529 billion this year compared with $458 billion last year. This is a positive sign for oil prices. The report attributes the robust year-over-year increase to large spending increases in both North America, up 16.2%, and outside North America, up 15.5%. In December, Barclays forecast a smaller increase of 11% globally, 7% in North America and 12% outside North America. The bigger budgets alongside higher oil prices and the expectation of rising oil prices are consistent with historical trends, the authors of the report said. "The correlation between exploration and production spending and inflation-adjusted oil prices is significant and we expect a high oil price environment to persist over the next several years driven by ... continued difficulty finding and developing large reserves, increased demand especially in emerging markets and tight spare capacity."

### Production Stable

#### **Oil production currently stable**

NYT, 6-2 (Arango, Tim, Baghdad Bureau Chief for New York Times. Oil Output Soars as Iraq Retools, Easing Shaky Markets. New York Times. <http://www>. nytimes.com/2012/06/03/world/middleeast/crude-oil-output-is-soaring-in-iraq-easing-markets.html)

BAGHDAD — Despite sectarian bombings and political gridlock, [Iraq](http://topics.nytimes.com/top/news/international/countriesandterritories/iraq/index.html?inline=nyt-geo)’s crude [oil](http://topics.nytimes.com/top/news/business/energy-environment/oil-petroleum-and-gasoline/index.html?inline=nyt-classifier) production is soaring, providing a singular bright spot for the nation’s future and relief for global oil markets as the West tightens [sanctions on Iranian exports](http://www.nytimes.com/2012/05/18/world/middleeast/iran-oil-production-drop-seen.html).¶ The increased flow and vital port improvements have produced a 20 percent jump in exports this year to nearly 2.5 million barrels of oil a day, making Iraq one of the premier producers in OPEC for the first time in decades.¶ Energy analysts say that the Iraqi boom — coupled with increased production in Saudi Arabia and the near total recovery of Libya’s oil industry — should cushion oil markets from price spikes and give the international community additional leverage over [Iran](http://topics.nytimes.com/top/news/international/countriesandterritories/iran/index.html?inline=nyt-geo) when new sanctions take effect in July.¶ “Iraq helps enormously,” said David L. Goldwyn, the former State Department coordinator for international energy affairs in the Obama administration. Even if Iraq increased its oil exports by only half of what it is projecting by next year, he said, “You would be replacing nearly half of the future Iranian supply potentially displaced by tighter sanctions.”¶ For Iraq, the resurgence of oil, which it is already pumping at rates seen only once — and briefly — since Saddam Hussein took power in 1979, is vital to its postwar success. Oil provides more than 95 percent of the government’s revenues, has enabled the building of roads and the expansion of social services, and has greatly strengthened the Shiite-led government’s hand in this ethnically divided country.¶ Oil has also brought its share of pitfalls for the fledgling democracy, fostering corruption and patronage, and aggravating [tensions with the Kurdish minority](http://www.nytimes.com/2011/11/14/world/middleeast/iraq-criticizes-exxon-mobil-for-its-deal-with-the-kurds.html) in the north over the division of profits, a festering issue that could end up fracturing the country.¶ The Iraqi government says it can add an additional 400,000 barrels a day of production by next year, and it has announced a goal of producing 10 million barrels a day by 2017, which would put it in a league with Saudi Arabia.¶ Few independent analysts say they believe the larger goal is realistic, but oil company executives have been impressed by Iraq’s progress and ambition.¶ “What the government is embarking on and the increase in production they are looking for under all of these contracts is unique in the world,” said Michael Townshend, president of BP Iraq. But, he cautioned, “Nobody has yet managed to increase oil production in their country to the extent Iraq is planning to. It’s hugely ambitious, and it will take a lot of things to work correctly.”¶ The country’s improving oil fortunes are well timed to compensate for Iran’s declining oil output, which according to OPEC fell by 12 percent in the first three months of the year as India, China and other Asian nations have gradually cut purchases under pressure from the United States and Europe.¶ With little if any progress achieved so far in negotiations between the West and Iran over its [nuclear program](http://topics.nytimes.com/top/news/international/countriesandterritories/iran/nuclear_program/index.html?inline=nyt-classifier), and [Iran’s nuclear chief reaffirming last weekend](http://www.nytimes.com/2012/05/28/world/middleeast/iran-wont-halt-production-of-higher-grade-uranium.html) that the country would continue producing higher-grade uranium, Western sanctions are set to tighten in July.¶ Iraq’s role in ameliorating the effects of those sanctions in the oil market could create tensions with Iran, a strong backer and ally of the Iraqi government.

#### High Prices now: Middle East and OPEC production cuts

Bloomberg Business Week 2012, (Oil Rises to Two-Month High on Rising Mideast Tension) July 19, 2012, http://www.bloomberg.com/news/2012-07-19/oil-rises-to-seven-week-high-on-geopolitical-risk-stimulus-bets.html.

Oil advanced to the highest level in two months on rising concern that instability in the Middle East will disrupt supplies from a region responsible for about one- third of world production. Prices gained for a seventh day after Israeli Prime Minister Benjamin Netanyahu blamed Lebanon’s Iranian-backed Hezbollah organization for yesterday’s killing of Israeli tourists in Bulgaria and threatened a forceful response. In Damascus, Syrian government forces battled rebels in retaliation for a blast that killed three top anti-insurgency leaders. “People are very concerned about what’s going on in the Middle East and that’s giving oil a boost,” said Jason Schenker, president of Prestige Economics LLC, an Austin, Texas- based energy consultant. “Iran is back in the spotlight and the situation in Syria is deteriorating. It increases geopolitical risk in the region.” Crude for August delivery increased $2.79, or 3.1 percent, to settle at $92.66 a barrel on the New York Mercantile Exchange. The price has risen 10 percent in seven days of gains, the longest such streak since Feb. 24. Prices are down 6.2 percent this year. Brent oil for September advanced $2.64, or 2.5 percent, to settle at $107.80 a barrel on the London-based ICE Futures Europe exchange. ‘Geopolitical Premium’ Five Israeli tourists, a Bulgarian bus driver and the assailant were killed in the suicide attack yesterday at the airport in Burgas, a popular holiday spot on the Black Sea coast, the Bulgarian Foreign Ministry said on its website. Netanyahu said in a statement broadcast from his office that Israel will pursue and punish those who harm its citizens. “You are seeing geopolitical premium with Netanyahu basically blaming Iran for the bombing,” said Tariq Zahir, a New York-based commodity fund manager at Tyche Capital Advisors. “Fear about supply disruption is the main driver out there today.” The incident comes amid heightened tension over the Islamic Republic’s nuclear program, which Israel says is intended to produce weapons for use against the Jewish state. Iran has threatened to close the Strait of Hormuz, a transit point for about 20 percent of the world’s traded crude, as the European Union imposed sanctions on Iranian oil on July 1. Iran Output Iran’s crude output will fall by 1 million barrels a day by the end of 2012 because of the EU sanctions, the U.S. Energy Department estimated in its July 10 Short-Term Energy Outlook. The country’s production fell to a 20-year low of 3.16 million barrels a day in June, according to Bloomberg estimates. The Organization of Petroleum Exporting Countries will cut shipments this month as the sanctions on Iran take effect, tanker-tracker Oil Movements said in an e-mailed report. “The Middle East is getting pretty ugly so you don’t really want to be bearish on oil,” said Bill O’Grady, chief market strategist at Confluence Investment Management in St. Louis, which oversees $1.4 billion. “Syria is starting to look like it may just fall apart, and if Syria goes, potential for a regional war goes up quite a bit.” At least 77 people were killed today as forces loyal to President Bashar al-Assad pounded rebel hideouts, the Local Coordination Committees in Syria said in an e-mail. Among the leaders killed yesterday were Assad’s brother-in-law, Assef Shawkat, and Defense Minister Dawoud Rajhah. The Middle East produced 27.7 million barrels a day of oil in 2011, according to BP Statistical Review of World Energy. Stimulus Speculation Oil also gained as U.S. stocks rose amid better-than- estimated earnings and increased speculation that the U.S. and China would move to support economic growth. The Standard & Poor’s 500 Index advanced as much as 0.6 percent. Federal Reserve Chairman Ben S. Bernanke said on July 17 policy makers are studying options for further easing that could be deployed in case economic growth remains too feeble to produce a lasting decline in unemployment. China can allow the fiscal deficit to widen if necessary to a size similar to 2009’s gap, Zhang Peng, a Beijing-based researcher with the Fiscal Research Institute at the Ministry of Finance, said in a telephone interview. “People continue to speculate about stimulus,” said Phil Streible, a Chicago-based commodities broker at RJO Futures. “You’ve got geopolitical events going on everywhere. You almost have a small perfect storm going on for oil.” Electronic trading volume on the Nymex was 602,757 contracts as of 3:15 p.m. in New York. Volume totaled 550,320 contracts yesterday, 1.2 percent below the three-month average. Open interest was 1.4 million.

### No Domestic Production

#### Domestic production is not picking up

Casselman & Gilbert 11 [1/3/11, Ben and Daniel, WSJ, “Drilling Is Stalled Even After Ban Is Lifted”, [http://online.wsj.com/article/SB10001424052970204204004576050451696859780.html?ru=yahoo&mod=yahoo\_hs]](http://online.wsj.com/article/SB10001424052970204204004576050451696859780.html?ru=yahoo&mod=yahoo_hs%5d)

More than two months after the Obama administration lifted its ban on drilling in the deep-water Gulf of Mexico, oil companies are still waiting for approval to drill the first new oil well there. Experts now expect the wait to continue until the second half of 2011, and perhaps into 2012. The administration says it is simply trying to enforce new safety rules adopted in the wake of the April 20 explosion of the Deepwater Horizon drilling rig, which killed 11 workers and set off the worst offshore oil spill in U.S. history. Environmental groups say the administration is right to take its time because the Gulf disaster exposed the risks of offshore drilling. But the delay is hurting big oil companies such as [Chevron](http://online.wsj.com/public/quotes/main.html?type=djn&symbol=CVX) Corp. [CVX -0.09%](http://online.wsj.com/public/quotes/main.html?type=djn&symbol=CVX?mod=inlineTicker) and [Royal Dutch Shell](http://online.wsj.com/public/quotes/main.html?type=djn&symbol=RDSB) [RDSB +1.12%](http://online.wsj.com/public/quotes/main.html?type=djn&symbol=RDSB?mod=inlineTicker) PLC, which have billions of dollars in investments tied up in Gulf projects that are on hold and are paying hundreds of thousands of dollars a day for rigs that aren't allowed to drill. Smaller operators such as [ATP Oil & Gas](http://online.wsj.com/public/quotes/main.html?type=djn&symbol=ATPG) Corp.,[ATPG -2.94%](http://online.wsj.com/public/quotes/main.html?type=djn&symbol=ATPG?mod=inlineTicker) which have less flexibility to focus on projects in other regions, have been even harder hit. The impact of the delays goes beyond the oil industry. The Gulf coast economy has been hit hard by the slowdown in drilling activity, especially because the oil spill also hurt the region's fishing and tourism industries. The Obama administration in September estimated that 8,000 to 12,000 workers could lose their jobs temporarily as a result of the moratorium; some independent estimates have been much higher. The slowdown also has long-term implications for U.S. oil production. The Energy Information Administration, the research arm of the Department of Energy, last month predicted that domestic offshore oil production will fall 13% this year from 2010 due to the moratorium and the slow return to drilling; a year ago, the agency predicted offshore production would rise 6% in 2011. The difference: a loss of about 220,000 barrels of oil a day. Drilling in waters of less than 500 feet also has been snared by the government's increased scrutiny. Regulators requested modifications to 101 shallow-water drilling plans in 2010, compared with 59 such requests in 2009 and just 31 in 2008. Rig operators say drilling permits once approved in a matter of weeks have taken up to five months to process as the government introduced new rules. The lengthy delays in reviewing new permits have caught the industry off guard. When the Obama administration lifted its ban on deep-water drilling on Oct. 12, many experts had expected a few permits to be issued before the end of 2010, followed by a gradual ramp-up of activity this year.

#### Tar sands won’t replace foreign oil

Hahn & Passell 11 [founder of the AEI Center for Regulatory and Market Studies; editor of The Milken Institute Review, the Institute's economic quarterly (6/9/11, Robert and Peter, Forbes Blog, “Extract Baby, Extract! There’s No Stopping Canadian Tar Sands Oil”, <http://blogs.forbes.com/econmatters/2011/06/09/extract-baby-extract-theres-no-stopping-canadian-tar-sands-oil/>]

We do have a direct stake in one aspect of the controversy, though: the impact of tar sands development on U.S. energy security or, more precisely, its impact on the global oil market. Extracting an extra million barrels of oil from Canadian tar sands wouldn’t reduce the volatility of oil prices very much in a world that now consumes 90 million barrels a day. But unlike the Persian Gulf, Nigeria, Venezuela or even Mexico, Canada is plainly a very reliable supplier of fuel. So increasing Canada’s share of global output modestly would (equally modestly) increase the stability of the global market for liquid fuels.

#### Tar Sands Oil Production unsustainable and devastating to the US economy

Stockman 10 [coordinator of the Remember Saro-Wiwa campaign, 5/6/2010, Lorne, Corporate Ethics International, “Tar Sands Oil Means High Gas Prices”, <http://switchboard.nrdc.org/blogs/sclefkowitz/media/Report_Tar%20Sands%20Means%20Higher%20Oil%20Prices%20050610.pdf>]

Tar sands oil production is the most expensive oil production in the world today and has been labeled the ‘marginal barrel’ by the International Energy Agency. In April 2010 Marvin Odum, Shell’s head of tar sands, announced that the company would not go ahead with any new tar sands projects in the next five years and perhaps longer because of the expense of doing so. He said that, ‘the oil sands have become one of the most costly places on earth to pursue oil projects’. Referring to the company’s recent $14 billion expansion of its tar sands mining project he said that it represented, ‘some of the most expensive production that we have.’ He stated that the 100,000 barrel a day (b/d) project will require minimum oil prices of $70-75 to turn a profit. Further, construction costs in Alberta are only going up. The rush to develop tar sands projects and the huge requirements for labor, cement, steel, engineering equipment and other resources mean that everything from rigs to housing are at a premium in the tar sands regions. A recent decline in costs spurred by the recession is already being reversed. In November 2009, one of Canada’s respected energy think tanks, the Canadian Energy Research Institute (CERI) produced its 2009 to 2043 forecast for the tar sands industry. In this 35 year timeline it expects oil prices to rise to around $200/bbl stimulating growth in 2 tar sands production of between 5 and 6 million b/d by the 2030s to 2040s. It calculates that the oil price required to facilitate this level of production ranges from $119 to $134/bbl. The last time oil prices were at this level, in mid-2008, U.S. gasoline prices averaged $3.96 per gallon. The tar sands industry is clearly betting on high oil prices in order produce much of the as yet undeveloped resource. However, there is a raft of economic analysis including that from the IEA and others that shows that high oil prices hinder economic growth and are therefore unsustainable. CERI and the tar sands industry are counting on a situation that would be devastating for the U.S. economy. If oil prices ever did reach $200/bbl, gasoline prices would probably be above $7 per gallon. Tar sands production is expensive primarily because it is bitumen, a solid or semi-solid form of degraded oil. Extracting and processing it requires more complex procedures than most conventional oil production. These processes require extensive specialized infrastructure leading to huge capital investment costs and high operating costs. Compare for example the estimated cost of developing a heavy oil field in Saudi Arabia with Shell’s recent tar sands mining expansion. The Manifa Field in Saudi Arabia is estimated to cost $15.75 billion to develop and as such is one of the most expensive developments in the country. It is slated to produce 900,000 b/d of oil as well as significant quantities of natural gas and condensate. In contrast, Shell’s Athabasca Oil Sands Project (AOSP) expansion cost $14 billion but only added 100,000 b/d of crude oil capacity.

#### Tar sand projects don’t decrease oil prices

Stockman 10 [coordinator of the Remember Saro-Wiwa campaign, 5/6/2010, Lorne, Corporate Ethics International, “Tar Sands Oil Means High Gas Prices”, <http://switchboard.nrdc.org/blogs/sclefkowitz/media/Report_Tar%20Sands%20Means%20Higher%20Oil%20Prices%20050610.pdf>]

Some argue that with other oil sources declining tar sands production may have a cooling effect on oil prices. The reality is the effect on prices is negligible. The ability to control oil prices is in the hands of those who have spare production capacity or the ability to add spare capacity relatively quickly. Neither exists in the Canadian tar sands industry. Nor is it ever likely to. During 2003-2008, which were considered boom years for the tar sands industry, tar sands companies invested $50 billion to bring on a mere 350,000 b/d of production capacity. In roughly the same period global oil demand rose by 8 million b/d, while on average oil prices tripled. Canada’s ability to maintain any spare capacity is restricted by the high capital intensity of tar sands production, the long lead-in time to bring on new capacity and the fact that the industry is run by the private sector. No independent oil company is going to idle capacity given the level of investment required to create it. In March 2010, OPEC reported over 6 million b/d of spare production capacity among its members, around 4mb/d of which is in Saudi Arabia. Depending on your point of view, it is the withholding of this production capacity that is maintaining oil prices at today’s high levels or its existence as spare capacity that is preventing prices spiraling out of control. Whichever way you perceive it the existence of tar sands production merely assists OPEC in maintaining its position. Canada produces more and OPEC produces less in order to maintain prices. In fact the IEA has predicted that whether tar sands production grows or not, OPEC’s domination of global oil production and exports will grow. In its 2009 Reference Scenario, OPEC’s market share is estimated to rise from 44% in 2008 to 52% in 2030. This is despite tar sands production potentially reaching 3.9mb/d as non-OPEC conventional oil production is in terminal decline. Even with this aggressive growth scenario for tar sands, this represents 18% growth in OPEC’s share of the global oil market. So OPEC’s ability to control oil prices is unlikely to diminish whether tar sands production grows or not.

#### AT: Price Decrease Inevitable – Even if the U.S. produced 100% of its own oil, the global price would stay the same

Weiss 3/27 (Daniel J., Senior Fellow Center for American Progress Action Fund, JOBS AND GASOLINE PRICES:; COMMITTEE: HOUSE NATURAL RESOURCES, Congressional Testimony, 3/27/2012)

Ken Green, resident scholar with the conservative American Enterprise Institute, explained that crude oil is a global commodity whose price will be unaffected by new U.S. production. Last year Greenwire reported that: "The world price is the world price. Even if we were producing 100 percent of our oil," Green said, if prices increase because of a shortage in China or India, "our price would go up to the same thing. . .We probably couldn't produce enough to affect the world price of oil," he added. "People don't understand that." Green also astutely predicted that some politicians would exploit higher oil prices to boost Big Oil's desire to drill on fragile lands and in coastal waters. "We're likely to see a replay of the McCain-Palin 'drill, baby, drill,' 'drill here, drill now.' It will probably be a cause celebre for the party." His warning was prescient those same cries are occurring this year as well. Green is correct. Allowing production into protected, fragile places will not lower oil and gasoline prices today, tomor-row, next year, or the year after that.

### Demand High

#### Oil Futures end higher after Bernanke's positive outlook on American demands on oil

Dow Jones Newswires 7/17/12(<http://www.nasdaq.com/article/oil-rises-on-stronger-demand-bernanke-remarks-20120717-01295> Oil Futures End Higher after Bernanke Remarks)  
The [oil market](http://www.nasdaq.com/article/oil-rises-on-stronger-demand-bernanke-remarks-20120717-01295) Tuesday put a smiling face on testimony by U.S. Federal Reserve Chairman Ben Bernanke and bid up [oil prices](http://www.nasdaq.com/article/oil-rises-on-stronger-demand-bernanke-remarks-20120717-01295) by 0.9% on stronger demand for oil and expectations of additional quantitative easing. Front-month oil futures on the New York Mercantile Exchange settled Tuesday at $89.22 a barrel, up 79 cents. Brent oil futures were trading up 47 cents to $103.84 a barrel. Tuesday's increase marked the fifth-straight day Nymex futures have closed higher. The oil market initially retreated on Mr. Bernanke's testimony, bidding oil to an intraday low when it became clear that the prepared remarks contained no new concrete promises for quantitative easing. But following the initial disappointment, oil prices steadily gained throughout the session, peaking at $89.46 a barrel before receding somewhat. Some Federal Reserve officials have previously expressed openness to another round of easing, although they have avoided specific plans for enacting it. Past rounds of quantitative easing have boosted oil prices, which are traded in dollars. A weaker dollar following quantitative easing attracts buyers to the oil market because the commodity becomes less costly to other currencies. Carl Larry, president of Oil Outlooks and Opinions, a research and consultancy firm, said the overall tone of the Senate hearing suggested additional quantitative easing was "inevitable" given the headwinds facing the economy. "There's no dismissing the fact that we need something," Mr. Larry said. Mr. Bernanke's "overall tone was that it's more likely than not to happen," Mr. Larry said. Analysts also cited seasonal and geopolitical factors in explaining the rise of oil prices Tuesday. The third quarter historically sees stronger oil demand than the second quarter, said Tim Evans of Citi Futures Perspective. What's more, the physical market for Brent oil has seen unexpected tightening in recent months due to the oil-field strike in Norway, unplanned outages in Libya at the time of the election and planned upcoming maintenance in the North Sea. "Stronger physical demand in the third quarter can support higher oil prices," Mr. Evans said. Oil prices were lent further support Tuesday in the aftermath of an incident Monday in which a U.S. ship fired on a fishing vessel near the Strait of Hormuz, killing one person and injuring three. Analysts said the incident forced markets to acknowledge the instability in the region given ongoing tensions between Iran and Western powers. "The incident was a reminder to the market this region of the world remains very volatile, with the possibility of a disruption in the supply of oil still a possibility at any time," said analyst Dominick Chirichella in a note. "Time will tell, but for the short term, the geopolitical risk is once again slowly building into the [price of oil](http://www.nasdaq.com/article/oil-rises-on-stronger-demand-bernanke-remarks-20120717-01295)." The market also is beginning to look ahead to Wednesday's release of U.S. oil inventory results. According to estimates from 11 analysts surveyed by Dow Jones Newswires, crude-oil inventories declined by an average of 1.1 million barrels in the week ended July 13. The analysts projected a build in refined products. The American Petroleum Institute, an industry trade group, said Tuesday that the weekly inventory report would show that crude inventories declined by two million barrels. The report said gasoline stocks declined by 116,000 barrels, while distillate stocks grew by 3.4 million. In economic news, industrial output rose 0.4% last month, the Federal Reserve said Tuesday. Capacity utilization increased slightly as well, climbing to 78.9% from 78.7% the previous month. Those results were a mixed bag in comparison with expectations. Economists surveyed by Dow Jones Newswires forecast a 0.3% rise in output and capacity utilization of 79.2%. Front-month reformulated gasoline blendstock, or RBOB, settled at a $2.845 per gallon, down 0.97 cents. Nymex heating [oil futures](http://www.nasdaq.com/article/oil-rises-on-stronger-demand-bernanke-remarks-20120717-01295) settled at $2.842 a gallon, up 1.45 cents.

#### Demands forecast to increase and production will increase to match

OGJ 1/10/12(Oil and Gas Journal, EIA forecasts oil, gas demand increases through 2013, <http://www.ogj.com/articles/2012/01/eia-forecasts-oil-gas-demand-increases-through-2013.html>

Worldwide oil consumption will increase by 1.3 million b/d this year and by 1.5 million b/d in 2013, with the higher demand met by increased production both from the Organization of Petroleum Exporting Countries and from non-OPEC producers, the US Energy Information Administration said in its latest Short-Term Energy Outlook. Absent a significant oil-supply disruption, EIA expects the recent tightening of world oil markets to moderate in 2012 and to resume in 2013. US oil consumption is forecast to average 18.96 million b/d this year and 19.01 million b/d in 2013 vs. 18.87 million b/d in 2011. Total oil demand in countries of the Organization for Economic Cooperation and Development is forecast to decline this year to 45.56 million b/d following last year’s 420,000 b/d decline to 45.68 million b/d, as a decline in European demand outweighs modest demand growth in North America. OECD demand for 2013 is forecast to average 45.73 million b/d. Non-OECD countries will account for most of the world’s oil demand growth over the forecast period with the largest gains in China, the Middle East, and Brazil. EIA forecasts non-OECD oil consumption will climb by 1.4 million b/d this year to average 43.82 million b/d and by another 1.3 million b/d in 2013. This compares to demand growth of 1.5 million b/d in 2011 by EIA estimates. Including crude oil and liquid fuels production, oil supply from non-OPEC countries will increase by 910,000 b/d in 2012 and by 760,000 b/d in 2013, led by output in North America due to continuing production growth from US onshore shale formations and Canadian oil sands. EIA forecasts that US crude oil production will average 5.74 million b/d this year, increasing by 170,000 b/d from 2011, and will climb by a further 80,000 b/d in 2013. Continued increases in Lower 48 onshore production of 270,000 b/d this year and 110,000 b/d in 2013 will overshadow declines of about 30,000 b/d in Alaskan output each year as well as a decline of 80,000 b/d in Gulf of Mexico production in 2012. The US will continue to be a net product exporter through the forecast horizon, EIA said, with net product exports averaging 310,000 b/d in 2012 and 290,000 b/d in 2013. For the first time since 1949, the US last year was a net exporter of refined petroleum products, with gross product exports averaging 380,000 b/d more than gross product imports. EIA expects that the market will rely on both inventories and increases in production of crude oil and noncrude liquids in OPEC member countries to meet global demand growth. OPEC crude oil production will increase by about 90,000 b/d in 2012 to average 29.96 million b/d and by 590,000 b/d in 2013, according to the outlook. OPEC noncrude petroleum liquids, which are not subject to production targets, increase by 410,000 b/d in 2012 to average 6.32 million b/d and by another 250,000 b/d in 2013. EIA forecasts that OPEC surplus production capacity will increase to 3.7 million b/d at the end of 2013 from about 2.3 million b/d at yearend 2011 in part due to the assumed recovery of Libyan production to predisruption levels. Brazil—where production is expected to increase annually by an average of 170,000 b/d over the next 2 years with increased output from its offshore, presalt oil fields—will be a major production-growth area, as will Kazakhstan, which will begin production in Kashagan field in 2013 and increase production annually by an average of 125,000 b/d. EIA said. Production will also increase in Colombia, Norway, and China, but notable production declines will occur in Russia, Mexico, Sudan, and the UK, the report said. EIA expects the price of West Texas Intermediate oil to average about $100/bbl in 2012, $5/bbl higher than the average price last year. For 2013, EIA expects WTI prices to continue to rise, reaching $106/bbl in the fourth quarter of next year. EIA’s forecast assumes that US real gross domestic product grows by 1.8% in 2012 and by 2.5% in 2013. Many uncertainties could push oil prices higher or lower than projected, EIA warned. Should a significant oil supply disruption occur, OPEC members do not increase production, or projected non-OPEC projects come online more slowly than expected, oil prices could be much higher. And if the pace of global economic growth fails to accelerate in OECD countries or if economic growth slows in non-OECD countries, then reduced demand could lower prices. EIA expects regular-grade motor gasoline retail prices to average $3.48/gal in 2012, down 4¢/gal from last year, and $3.55/gal in 2013. Natural gas working inventories continue to set new record highs and ended December 2011 at an estimated 3.5 tcf, about 12% higher than a year earlier. EIA’s average 2012 Henry Hub natural gas spot price forecast is $3.53/MMbtu, a decline of almost 50¢/MMbtu from the 2011 average spot price. EIA expects that Henry Hub spot prices will average $4.14/MMbtu in 2013. EIA expects US marketed gas production to grow by 1.4 bcfd this year to 67.34 bcfd and by 0.7 bcfd in 2013 as low prices reduce new drilling plans and consumption grows at a measured pace. Total marketed production grew by an estimated 4.5 bcfd, up 7.4%, in 2011, the largest year-over-year volumetric increase in history, driven in large part by increases in shale gas production. Imports of LNG are expected to decline by 26% in 2012 to 0.69 bcfd, as higher global LNG market prices reduce LNG’s competitiveness in the US market. A small amount of LNG will continue to arrive at US terminals in 2012 and 2013 either to take advantage of temporarily high local prices due to cold snaps and disruptions or to fulfill long-term contract obligations, EIA said. The STEO forecasts that US gas consumption this year will total 68.23 bcfd, up from last year’s 66.92 bcfd and driven by an increase in electric power demand mostly, as well as by greater demand by residential, commercial, and industrial customers. Demand in 2013 is forecast to average 69.14 bcfd.

#### Demand to further increase in the short-term

Watts 5/10/12 (William L, writer for WSJ’s MarketWatch, WSJ—MarketWatch, OPEC Nudges World Oil Demand Forecast higher, <http://articles.marketwatch.com/2012-05-10/markets/31647705_1_monthly-oil-report-opec-oil-demand>)

The Organization of Petroleum Exporting Countries, or OPEC, on Thursday said it expects world oil demand to grow by 900,000 barrels a day in 2012, up slightly from 860,000 barrels in its April forecast. In its monthly oil report for May, OPEC said the stabilization of the U.S. economy and shutdown of Japanese nuclear power plants has stopped the declining trend in demand at least for the short term. Oil demand in non-OECD countries is indicating a "slight improvement," the report said, while the upcoming U.S. driving season might be affected by higher retail gas prices and an uncertain economic outlook.

#### Global demand increasing in the long-term

[Tanquintic-Misa](http://au.ibtimes.com/archives/articles/reporters/esther-tanquintic-misa/) 6/26/12 (Esther, writer for the International Business Times, International Business Times, Global Oul Demand to Rise 0.9% to 109.5 Million Barrels Per Day by 2035 – EIA, <http://au.ibtimes.com/articles/356353/20120626/china-oil-crude-natural-gas-fuel.htm#.UA2Rn2GJdV5>)

Global demand for liquid-fuel, such as oil, condensates, and natural gas liquids, has been forecast to grow 0.9 per cent between 2010 and 2035, to 109.5 million barrels a day, the US Energy Information Administration said Monday in a published report titled 'Annual Energy Outlook (AEO) for 2012. The same AEO revealed [China](http://au.ibtimes.com/topics/detail/227/china/)'s demand for liquid fuels will outrank the US demand, growing by 2.8 per cent per annum and hitting 18.5 million barrels per day in 2035, compared with the US's 0.2 per cent per annum to a total of 20 million barrels per day. The share of liquids production from the Organisation of Petroleum Exporting Countries ([OPEC](http://au.ibtimes.com/topics/detail/564/opec/)) will jump from 39.7 per cent in 2010 to 41.9 per cent in 2035, largely because the world gets more heavily dependent on the body's oil production. Output will soar by 10 million barrels per day, to 44.2 million barrels per day. This as the Middle East members of[OPEC](http://au.ibtimes.com/topics/detail/564/opec/), to offset declines in North and South America, will work to improve production by 1.5 per cent. Meanwhile, domestic crude production by the US is forecast to grow by more than 1 million barrels per day above 2010 levels by 2020. Crude oil equivalent production, on the hand, will likewise jump by 1.2 million barrels per day by 2035, primarily because of the use of biofuels. Natural gas-fired electricity generation, according to the AEO report, will jump to 28 per cent in 2035 from 24 per cent in 2010, and the renewables share, to 15 per cent from 10 per cent. Coal-fired generation, however, will drop to 38 per cent in 2035, down from 48 per cent in 2008.

#### Global Demand for Oil set to increase

MarketWatch 7/19/12 (Press release, WSJ, Oil Stocks on the Upswing as IEA Reports Global Oil Demand to Rise by 1 Million Barrels per Day, <http://www.marketwatch.com/story/oil-stocks-on-the-upswing-as-iea-reports-global-oil-demand-to-rise-by-1-million-barrels-per-day-2012-07-19>)

Oil stocks received a boost Tuesday as oil prices increased for a fifth consecutive day. A recent report from the Federal Reserve showed that U.S. industrial production increased in June. "The economic data is pretty good and it's painting a better picture for oil demand," Phil Flynn, senior market analyst at the Price Futures Group said on Tuesday. "The market is getting prepared for tomorrow's inventory report." Five Star Equities examines the outlook for companies in the Oil & Gas Industry and provides equity research on ATP Oil & Gas Corporation [ATPG -9.23%](http://www.marketwatch.com/investing/stock/ATPG?link=MW_story_quote) and Oasis Petroleum Inc. [OAS -4.70%](http://www.marketwatch.com/investing/stock/OAS?link=MW_story_quote) . Last Thursday, the International Energy Agency stated they expect global oil demand to increase by 1 million barrels a day in 2013. In their report the IEA forecasts global oil demand in 2013 will rise 1.1 percent to average 90.9 million barrels a day. While the rise comes as a welcome sign, demand is still "well below" the levels before the financial crisis. "While the economic risks encompassed in our weaker GDP and demand profile this month also hint at something of a price ceiling, the latent potential of emerging market demand growth and ongoing risk of nasty supply surprises could keep prices stubbornly high in absolute terms," the IEA report said. ATP Oil & Gas is an international offshore oil and gas development and production company with operations in the Gulf of Mexico, Mediterranean Sea and the North Sea. The company recently announced the completion of Mississippi Canyon Block 941 A-2 well located in the Mirage Field. Initial test flow rates are at 4,000 barrels equivalent per day of which 90% is oil. The A-2 well will be tied back to the facility immediately and is expected to produce at a rate of 4,000 to 5,000 Boe per day. Oasis is an independent exploration and production company focused on the acquisition and development of unconventional oil and natural gas resources, primarily operating in the Williston Basin. The company in the first quarter of 2012 grew average daily production to 17,633 barrels of oil equivalent per day, a 118% increase over the first quarter of 2011. Daily production increased by 16% compared to the fourth quarter of 2011 and exceeded guidance range of 15,000 to 16,500 Boepd.

### No price spikes

#### There are sanctions in SQ that prevent oil price volatility

McNally 12, Robert McNally January 2012 He has previously served as an oil market analyst with Energy Security Analysis, a market and policy analyst for Tudor Investment Corporation, special assistant to the president on the National Economic Council, and senior director for international energy on the National Security Council, (Managing Oil Market Disruption in a Confrontation with Iran)

This scenario appears to be taking shape, as the United States enacts sanctions on Iran’s central bank and the central banks of those who purchase Iranian crude (though President Barack Obama can 3 waive them), the EU implements an embargo on imports from Iran, and Japan and South Korea come under more intense pressure to reduce their imports of Iranian crude. These sanctions are designed to prevent global oil price spikes by keeping Iran’s oil flowing, but still forcing Tehran to sell at a discount to a limited pool of remaining buyers, including China, India, and Turkey, each of which has an economic self-interest in extracting a below-market price.

#### Oil Shocks don’t affect the US

Schulz 6 [Max, Senior Fellow @ Manhattan Institute and Former Senior Policy Advisor to the Secretary of Energy, National Review, “Iran's Oil-Weapon Threat Rings Hollow”, 9-19, <http://www.nationalreview.com/articles/218696/irans-oil-weapon-threat-rings-hollow/max-schulz>]

Does Iran have us over a barrel? As the Iranian nuclear crisis worsens, the mullahs in Tehran are trying to forestall American or Israeli military action by threatening to use the “oil weapon.” Last month Iran’s top nuclear negotiator suggested the country might pull from the world market the 2.5 million barrels of oil it exports daily — a reprise of the Arab oil embargo of the early 1970s. Another possibility Iran has proposed would be to shut down the Strait of Hormuz, the shipping lane through which other nations’ Persian Gulf oil must pass. The implication is that such actions would set off a depth charge in the international energy economy, so the U.S. and its allies should back down. Don’t believe it. Certainly Iran’s leaders are unhinged enough to try making good on one of those two promises. Either action would send oil soaring, perhaps well over $100 per barrel. Gasoline would spike too, perhaps to $5 or $6 per gallon. The dirty little secret about Iran’s threats, however, is though they might cause some pain, they wouldn’t cripple our economy. The American economic engine is too strong to be brought to its knees by Iran’s machinations, and the weapon Tehran threatens to wield is not as menacing as they would have us believe. Energy Secretary Samuel Bodman noted recently that the United States could weather a hypothetical Iranian oil disruption and foil Tehran’s efforts at nuclear blackmail. The United States Strategic Petroleum Reserve currently holds upward of 700 million barrels. The Bush administration would not hesitate to release oil from the reserve if Iran closed its taps. That’s the sort of leverage we didn’t have during the 1973 energy crisis. But the chief reason this is not your father’s oil embargo is that the U.S. economy is much less susceptible to being harmed by an oil shock today than it was during the 1970s. The economy is running at unparalleled strength. It has demonstrated great resilience after taking blows from 9/11, last year’s hurricanes, and the general run-up in energy prices over the last five years brought on by increased demand from China and India. We take the hits, absorb them, and move on with little substantial damage incurred. Moreover, the economy is less dependent on oil today than during the Arab oil embargo. We truly are moving beyond the petroleum economy. More than 85 percent of the growth in U.S. energy demand in the last quarter century has been met by electricity, most notably in information technology and telecom. Today, nearly three of every five dollars of GDP come from industries and services that run on electricity. In 1950, just one in five dollars of GDP was electric; the remaining 80 percent of the economy was powered by petroleum. Oil is still vitally important to the American economy, of course, but each year it gets a little less so. And each year, we become more insulated from the sort of economic terrorism Tehran is proposing. While oil prices in excess of $100 per barrel would undoubtedly hurt, particularly at first, the long-term damage would be nowhere as severe as pessimists predict. None of this is to minimize the effect of rising energy prices, which harm consumers and businesses and do have some drag on the economy. But the economic numbers month after month have continued to impress. Clearly skyrocketing petroleum prices so far have not crippled the American economic engine. At the end of the day, the Iranians probably won’t go the route of pulling their oil from the market, which would hurt Iran more than it would us. Iran depends on oil sales for 90 percent of its export revenues and roughly half of its government’s budget. Halting oil sales would be like the incompetent suicide bomber who blows himself up without getting near his target. Iran is also unlikely to try to stop shipping in the Strait of Hormuz, as it would likely involve military action against its Islamic neighbors and fellow OPEC members (not to mention tankers bearing China’s flag). Iran’s beef is with the West, not with Saudi Arabia or Kuwait. How the West handles the growing crisis over Iran’s nuclear-weapons program remains to be seen. However, we shouldn’t take the option of military action off the table just because Iran is rattling sabers against its oil drums. Iran’s threats about its nuclear weapons are one thing, and should be taken seriously. Iran’s threats about its oil weapon, however, ring too hollow to worry about.

#### Oil shocks don’t exist

Kahn 11 [2/13/11, Jeremy, Boston Globe, “Crude reality”, <http://www.boston.com/bostonglobe/ideas/articles/2011/02/13/crude_reality/>]

For more than a month, the world has been riveted by scenes of protest in the Middle East, with demonstrators flooding streets from Tunisia to Egypt and beyond. As the unrest has spread, people in the West have also been keeping a wary eye on something closer to home: the gyrating stock market and the rising price of gas. Fear that the upheaval will start to affect major oil producers like Saudi Arabia has led speculators to bid up oil prices — and led some economic analysts to predict that higher energy costs could derail America’s nascent economic recovery. The idea that a sudden spike in oil prices spells economic doom has influenced America’s foreign policy since at least 1973, when Arab states, upset with Western support for Israel during the Yom Kippur War, drastically cut production and halted exports to the United States. The result was a sudden quadrupling in crude prices and a deep global recession. Many Americans still have vivid memories of gas lines stretching for blocks, and of the unemployment, inflation, and general sense of insecurity and panic that followed. Even harder hit were our allies in Europe and Japan, as well as many developing nations. Economists have a term for this disruption: an oil shock. The idea that such oil shocks will inevitably wreak havoc on the US economy has become deeply rooted in the American psyche, and in turn the United States has made ensuring the smooth flow of crude from the Middle East a central tenet of its foreign policy. Oil security is one of the primary reasons America has a long-term military presence in the region. Even aside from the Iraq and Afghan wars, we have equipment and forces positioned in Oman, Saudi Arabia, Kuwait, and Qatar; the US Navy’s Fifth Fleet is permanently stationed in Bahrain. But a growing body of economic research suggests that this conventional view of oil shocks is wrong. The US economy is far less susceptible to interruptions in the oil supply than previously assumed, according to these studies. Scholars examining the recent history of oil disruptions have found the worldwide oil market to be remarkably adaptable and surprisingly quick at compensating for shortfalls. Economists have found that much of the damage once attributed to oil shocks can more persuasively be laid at the feet of bad government policies. The US economy, meanwhile, has become less dependent on Persian Gulf oil and less sensitive to changes in crude prices overall than it was in 1973.

### No Peak Oil

#### No Peak oil

Maugeri 6/12 (Leonardo, Research Fellow of the Geopolitics of Energy Project at Harvard’s Kennedy School- Belfer Center for Science and International Affairs, Oil: The Next Revolution)

Quite unnoticed, a big wave of oil production is mounting worldwide, driven by high oil prices, booming investments, private companies’ desperate need to restore their reserve, and the misguided but still prevalent perception that oil must become a rare commodity. The year 2012 will likely set a new historic record, with more than $600 billion to be spent worldwide in oil and gas exploration and production. For the first time, new areas of the world – from sub-equatorial Africa to Asia and Latin America – are being targeted for mass exploration, and unveiling the potential for significant conventional oil production over the next years. Furthermore the combination of high oil prices, advanced technologies that were once uneconomical, and restricted access to conventional oil resources in the major oil-producing countries is pushing private oil companies to ‘explore and develop unconventional oils on a broader scale. This effort is concentrated in Canada, the United States, Venezuela, and Brazil. The U.S. shale/tight oil appears to be a potential “paradigm-shift” for the entire world of unconventional oils. The unexpected and rapid increase of oil production from the forerunner of shale/tight oil (the Bakken Shale formation in North Dakota) is astonishing: production has grown from a few barrels in 2006 to more than 530,000 barrels in December 2011. While opinion-makers, decision-makers, the academy, and the financial market seem to be caught up in the “peak-oil” mantra and an excessive enthusiasm for renewable energy alternatives to oil, oil prices and technologies are supporting a quiet revolution throughout the oil world. If this “oil revolution” is true, it may change the way most people think about energy and geopolitics. This paper examines the extent of this revolution.

#### No Peak oil- innovations solve

DENNING 6/27/12 (LIAM, writer for the Wall Street Journal, The WSJ blog, Has peak oil paranoia peaked?, <http://blogs.wsj.com/overheard/2012/06/26/has-peak-oil-peaked/>)

Peak oil enthusiasts have had a rough few years. When the price of oil was racing towards its all-time peak in the feverish summer of 2008, Malthusianism was all the rage — even the usually unruffled International Energy Agency [seemed to be worried](http://blogs.wsj.com/environmentalcapital/2008/07/01/peak-oil-iea-inches-toward-the-pessimists-camp/) that supply couldn’t keep up with demand. The collapse of Lehman Brothers a few months after that kicked off a sharp correction in oil prices. But they bottomed out at around $40 a barrel and then resumed their climb, breaking back above $100 as the Arab Spring gathered steam in 2011. This time, though, talk of peak oil is muted. A quick look at the beta version of [Google’s Insights for Search tool](http://www.google.com/insights/search/#q=%22peak%20oil%22&date=1%2F2004%20102m&cmpt=q) shows that web searches for “peak oil” actually, erm, peaked in late 2005 and then surged again along with the oil price in early 2008. Since then, though, they’ve trailed off dramatically: so far in June, the number of “peak oil” searches is less than one-tenth what it was in May 2008. Digital back-of-the-envelope? Maybe, but there is no denying that fears of the world running out of oil have lessened. Five years ago, or even a year ago, [news that an embattled Syria had shot down a Turkish jet](http://online.wsj.com/article/SB10001424052702304898704577482560008420668.html) would have sent oil prices soaring. But on Monday, as Turkish anger over the incident seemed to intensify, oil prices actually continued falling, below $79 in the case of West Texas Intermediate. It isn’t just that demand in the western world is down, although it is: OECD demand has dropped by 4 million barrels per day, or 8%, since it peaked in 2005. Global demand increased by 4.1 million barrels per day in that time, meaning emerging market consumption increased by roughly two barrels per day for every one that was lost in the industrialized world. The more troublesome development for peak oil proponents is on the supply side — which, after all, is what [peak oil is all about](http://energyoutlook.blogspot.com/2004/09/peaking-interest-well-peak-oil-issue.html). If we are at peak oil, then global reserves shouldn’t be climbing and oil producing capacity should be maxed out or falling. A new report from the Harvard Kennedy School’s Belfer Center for Science and International Affairs not only suggests that is not case, but estimates that the world could be capable of producing 110.6 million barrels per day by 2020, up from 93 million barrels per day now. Leonard Maugeri, who authored the report, titled “Oil: The Next Revolution”, writes that “the age of ‘cheap oil’ is probably behind us” as new sources are harder, and therefore more expensive, to develop than in the past. That said, he reckons more than 80% of the new oil production looks profitable at a long-term oil price of just $70 a barrel — well below most analyst forecasts. Mr. Maugeri, a former executive vice president of Italian oil major Eni, is a well-known critic of peak oil theories. And while the study itself was not commissioned or sponsored by BP, it was produced under the auspices of the Belfer Center’s Geopolitics of Energy project which is suported in part by a general grant from the oil major. Even so, it is hard to argue with the approach Mr. Maugeri has taken. His field-by-field approach actually yielded an estimated increase in productive capacity of 49 million barrels per day, but he scales that back to a net increase of about 18 million barrels per day to reflect decline rates from existing oil fields and the problems inherent to realizing the pure geological potential of a region like, say, Iraq. His central argument — that in this decade we will reap the benefits of the wave of investment spurred by the rising oil prices of the past decade — is also hard to refute. This is what happened in the period of the oil shocks of the 1970s and the subsequent collapse in the price of oil in the mid-1980s. It is also evident in the gathering turnaround in U.S. oil production, as high prices have spurred the [successful development of shale oil resources](http://online.wsj.com/article/SB10001424052970203764804577060443747706490.html). Going long Malthus is to effectively go short on human ingenuity and technological innovation. Belief in peak oil sows the seeds of its own refutation as it forces up prices and makes what was previously too expensive to contemplate — such as fracturing shale rocks — worth trying. Mr. Maugeri notes himself that a sudden collapse in oil prices if, say, China’s economy hits a wall, would likely lead to some wells not being drilled and thereby a smaller increase in oil output. Equally, though, once oil companies have sunk capital into the ground, they often prove slow to curtail output even in the face of low or falling prices — witness the U.S. exploration and production sector’s continued growth in natural gas output. Most of the new projects examined in Mr. Maugeri’s report will be developed or close to completion by 2015. If demand doesn’t keep up beyond then for whatever reason (China’s economy slowing? Vehicle efficiency advancing rapidly? Natural gas vehicles taking off?) the second half of the decade could be a real downer for peak oilers — and prices.

#### No peak oil

Gholz & Press 7 [Associate professor at the LBJ School of Public Affairs at the University of Texas at Austin, AND \*\* Associate professor of government at Dartmouth College and coordinator of War and Peace Studies at the John Sloan Dickey Center for International Understanding (Eugene and Daryl G., CATO Policy Analysis, “Energy Alarmism The Myths That Make Americans Worry about Oil”, No. 589, http://www.cato.org/pubs/pas/pa-589.pdf]

Many Americans have lost confidence in their country's "energy security" over the past several years. Because the United States is a net oil importer, and a substantial one at that, concerns about energy security naturally raise foreign policy questions. Some foreign policy analysts fear that dwindling global oil reserves are increasingly concentrated in politically unstable regions, and they call for increased U.S. efforts to stabilize—or, alternatively, democratize—the politically tumultuous oil-producing regions. Others allege that China is pursuing a strategy to "lock up" the world's remaining oil supplies through long-term purchase agreements and aggressive diplomacy, so they counsel that the United States outmaneuver Beijing in the "geopolitics of oil." Finally, many analysts suggest that even the "normal" political disruptions that occasionally occur in oil-producing regions (e.g., occasional wars and revolutions) hurt Americans by disrupting supply and creating price spikes. U.S. military forces, those analysts claim, are needed to enhance peace and stability in crucial oil-producing regions, particularly the Persian Gulf.¶ Each of those fears about oil supplies is exaggerated, and none should be a focus of U.S. foreign or military policy. "Peak oil" predictions about the impending decline in global rates of oil production are based on scant evidence and dubious models of how the oil market responds to scarcity. In fact, even though oil supplies will increasingly come from unstable regions, investment to reduce the costs of finding and extracting oil is a better response to that political instability than trying to fix the political problems of faraway countries. Furthermore, Chinese efforts to lock up supplies with long-term contracts will at worst be economically neutral for the United States and may even be advantageous. The main danger stemming from China's energy policy is that current U.S. fears may become a self-fulfilling prophecy of Sino-U.S. conflict. Finally, political instability in the Persian Gulf poses surprisingly few energy security dangers, and U.S. military presence there actually exacerbates problems rather than helps to solve them.¶ Our overarching message is simply that market forces, modified by the cartel behavior of OPEC, determine most of the key factors that affect oil supply and prices. The United States does not need to be militarily active or confrontational to allow the oil market to function, to allow oil to get to consumers, or to ensure access in coming decades.

### No Renewables

#### Financing renewable energy is coming to a halt with the end of federal grants.

NREL July 3, 2012 (National Renewable Energy Laboratory is the only federal laboratory dedicated to the research, development, commercialization and deployment of renewable energy and energy efficiency. “Renewable Energy Faces Financing Challenges with End of Federal 1603 Grant Program” <http://www.renewableenergyworld.com/rea/news/article/2012/07/renewable-energy-faces-financing-challenges-with-end-of-federal-1603-grant-program> accessed July 23, 2012)

**The expiration of a federal grant program at the end of 2011 may make it more difficult and expensive for developers of certain kinds of renewable power projects to access private capital, a new report suggests. That, in turn, may lead to fewer projects coming on-line**. "Our interviews with financial executives active in the renewable energy market suggest that t**he end of the Section 1603 Program of the American Recovery and Reinvestment Act means that financing renewable power projects is about to become more difficult**," said Michael Mendelsohn, an NREL analyst who co-wrote the report "1603 Treasury Grant Expiration: Industry Insight on Financing and Market Implications," with John Harper of Birch Tree Capital, LLC.

# Links

### Link: Transit key

#### Any loss in transportation oil consumption would be massive. The transportation sector accounts for 62% of all oil used.

Rodrigue 09, Jean-Paul Rodrigue- Department of Economics & Geography at Hofstra University since 1999 (THE GEOGRAPHY OF TRANSPORT SYSTEMS- SECOND EDITION), 2009, <http://people.hofstra.edu/geotrans/eng/ch8en/conc8en/ch8c2en.html> ejj.

A powerful trend that emerged since the 1950s concerns the growing share of transportation in the total oil consumption of developed countries. World market consumption of all primary energy forms has grown by 40% during the period 1980-2000. Transportation accounts for approximately 25% of world energy demand and for more than 62% of all the oil used each year. The impacts of transport on energy consumption are diverse, including many that are necessary for the provision of transport facilities:¶ Vehicle manufacture, maintenance and disposal. The energy spent for manufacturing and recycling vehicles is a direct function of vehicle complexity, material used, fleet size and vehicle life cycle.¶ Vehicle operation. Mainly involves energy used to provide momentum to vehicles, namely as fuels, as well as for intermodal operations. The fuel markets for transportation activities are significant.

#### Transportation infrastructure uniquely scares oil producers

**Sovacool 7**- PhD in science and technology studies (Benjamin K., Visiting Associate Professor at Vermont Law School, where he manages the Energy Security and Justice Program at their Institute for Energy & the Environment, “Solving the oil independence problem: Is it possible?” Energy Policy, Volume 35, Issue 11, p. 5505)//mat

**Changing community design and promoting more mass transit and light rail systems would** also **induce substantial oil savings.** The suburbanization of America has resulted in a tripling of vehicle use in the past 30 years. The promotion of location-efficient mortgages that reward those who build and buy homes near public transit, tax-free benefits for employees who use mass transit or bike to work, **streamlined financing for public transportation projects** that significantly increase mobility of commuters, **and more transit-oriented development zones could drastically reduce oil consumption.** The NRDC (2004) estimates that if builders constructed all homes in the next 10 years as smart-growth communities (communities that offer housing near jobs, public transportation, and walkable neighborhoods), more than 500,000 barrels of oil per day could be reduced. **If the government were to support a large program to design carpool lanes along all motorways**, designate park and ride lots, and match riders, **an additional 1.0 MBD could be saved** (International Energy Agency, 2005).

#### Transportation infrastructure is essential in reducing foreign oil dependence

**Smith ’12** – President and CEO of Reconnecting America (John Robert, Federal Transportation Infrastructure Investment Critically Important, Reconnecting America,

1/25/12, <http://www.reconnectingamerica.org/news-center/reconnecting-america-news/2012/federal-transportation-infrastructure-investment-critically-important>

"I appreciate the President's recognition that repairing our transportation infrastructure must be a part of any plan to make an America 'built to last.' As the President pointed out, both Republican and Democratic administrations invested in great highway projects after World War II. Those major infrastructure investments benefited everybody, as the President noted, 'from the workers who built them to the businesses that still use them today.' And now, many of those roads and bridges are in disrepair. "**Today, as the nation begins to rise out of a deep recession,** **an investment in transportation infrastructure is critically important, including not only roads and bridges, but other modes such as trains and buses. Transportation choices for Americans are essential for reducing our dependence on foreign oil,** increasing access to opportunity, and improving our quality of life. Indeed, transportation is a key component in making many of the President's other proposals work. We need transit options and intermodal links to take students to college, to transport unemployed workers to job training, and to bring employees and customers to small businesses. Quality, reliable public transportation systems are the anchors that help many communities thrive, whether they are in rural, suburban, or urban areas. “A world class transportation system can be made in America with Americans working to ensure that Americans have a way to get to work. That is a solution we can all support. As a former Republican mayor, I was pleased to hear the president's strong call not to politicize transportation construction. I encourage members of both parties to work towards a solution that will benefit all Americans."

#### Transportation is the key sector for oil consumption

WORLD CRISIS 08 ("World Oil Crisis; Driving force, Impact and Effects," http://www.world-crisis.net/oil-crisis.html)

Energy demand is distributed amongst four broad sectors: transportation, residential, commercial, and industrial. In terms of oil use, transportation is the largest sector and the one that has seen the largest growth in demand in recent decades. This growth has largely come from new demand for personal-use vehicles powered by internal combustion engines. This sector also has the highest consumption rates, accounting for approximately 68.9% of the oil used in the United States in 2006, and 55% of oil use worldwide as documented in the Hirsch report. Transportation is therefore of particular interest to those seeking to mitigate the effects of Peak oil. With the demand growth at its highest level in the developing world, the United States is the world's largest consumer of petroleum. Between 1995 and 2005, US consumption grew from 17.7 million barrels a day to 20.7 million barrels a day, a 3 million barrel a day increase. China, by comparison, increased consumption from 3.4 million barrels a day to 7 million barrels a day, an increase of 3.6 million barrels a day, in the same time frame. As countries develop, industry, rapid urbanization and higher living standards drive up energy use, most often of oil. Thriving economies such as China and India are quickly becoming large oil consumers. China has seen oil consumption grow by 8% a year since 2002, doubling from 1996-2006 levels. In 2008, auto sales in China were expected to grow by as much as 15-20 percent, resulting in part from economic growth rates of over 10 percent for 5 years in a row. Although swift continued growth in China is often predicted, others predict that China's export dominated economy will not continue such growth trends due to wage and price inflation and reduced demand from the US. India's oil imports are expected to more than triple from 2005 levels by 2020, rising to 5 million barrels per day.

#### US transit system is key - uses the most oil

Brookings Institute 8 ("A Bridge to Somewhere: Rethinking American Transportation for the 21st Century," a multi-year initiative to help guide policymaker decisions, http://www.brookings.edu/~/media/research/files/reports/2008/6/transportation%20puentes/06\_transportation\_puentes\_report.pdf)

U.S. transportation performance on the three legs of the stool—fuel type, fuel efficiency, and miles traveled—result in the world’s largest amount of oil consumption per capita, at 8.35 tons of oil equivalent per person, or about 61.2 barrels per year for every man, woman, and child. Though Canada comes in a close second, with 59.8 barrels per person, the next closest country (Finland) uses almost 25 percent less oil per capita. France and Japan use about half and the United Kingdom just 47 percent of the U.S. level.73

### Link: US Key

#### US demand key: When US demand increases there is empiric evidence of an increase in oil prices.

Huffington Post 12, Huffington Post Business- a political news site, July 18, 2012, (Oil price climbs above $90 on stronger US demand), <http://www.huffingtonpost.com/huff-wires/20120718/oil-prices/> ejj.

NEW YORK — The price of oil on Wednesday briefly hit $90 per barrel for the first time since May after the government said U.S. oil demand is on the rise. The Energy Information Administration reported that average oil demand increased last week in the U.S. for the third week in a row. Oil demand had been down most of the year, when compared with 2011, as manufacturing activity slowed and drivers cut back on travel. "We keep talking about the slow economy, but the market is seeing some improved oil demand today," said Phil Flynn, an analyst at Price Futures Group.¶ Benchmark U.S. crude rose by 65 cents to end the day at $89.87 per barrel in New York. It hit $90.04 per barrel earlier in the day, the highest since May 30. Brent crude, which sets the price for oil imported into the U.S., rose by $1.16 to end at $105.16 per barrel in London.

#### US demand fuels Saudi oil policy

Bond 2012 (Steven, staff writer, "Saudi oil production to stay high on US demand, Iran sanctions" AME http://www.ameinfo.com/293804.html)

Saudi Arabia's oil production is seen staying above 10 million bpd on raised demand and continued restrictions on Iran, but it is unclear how much stability this increase will provide to the market in the coming months. After the Saudi Arabian Monetary Agency (SAMA) vowed earlier this year to correct any imbalance in supply and demand, crude oil production capacity is currently in the region of 12.5 million bpd. While this figure may not be sustainable long term, an output sustained over 10 million bpd is anticipated, in part due to growing demand from the US. "In terms of production, I think the Saudis can probably manage to produce at over 10 million bpd for quite some time," says Katrina Dunkley, Senior Petroleum Analyst at FTI Consulting.

### Link: Perception

#### 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.**

#### High oil prices are based on the perception of future demands and development of new sources

Oxford Business Group, 2011 ("Oil's impact: Managing the global crude market's effect on the local economy," p: http://www.oxfordbusinessgroup.com/news/oil%E2%80%99s-impact-managing-global-crude-market%E2%80%99s-effect-local-economy)

SPECULATION: Investment in crude assets has also contributed to higher crude costs. In recent years, oil has increasingly been treated as a financial asset by investors, used to hedge against inflation and a depreciating dollar and as a straightforward bet on the global economy. Expectations about the global economy can be measured by movements in world stock markets, and as a result of increased hedging, in recent years have increasingly moved in tandem with oil prices. Before 2007 the relationship had little similarity but after 2007, the correlation between global stock markets (as measured by MSCI’s World Index) and oil prices was between 80% and more than 90%. This suggests that oil prices are affected by market sentiment and investors are an increasingly important factor driving oil price changes. Some surveys estimate that in a rising market, 25-40% of the price of a barrel of oil is the result of speculative inflows into oil markets. The price of a barrel roughly breaks down into exploration, production and transport costs of 28%, an investment and speculation cost of 33%, a risk premium of 18% and a premium for inflexible supply and demand growth of 21%. These components mean the rising price trend is unlikely to change in the future.

### Link: Air

#### Link: Air transport uses 1.2 million barrels every day and that’s a big part of our oil consumption.

Rodrigue 09, Jean-Paul Rodrigue- Department of Economics & Geography at Hofstra

University since 1999 (THE GEOGRAPHY OF TRANSPORT SYSTEMS- SECOND EDITION), 2009, <http://people.hofstra.edu/geotrans/eng/ch8en/conc8en/ch8c2en.html> ejj.

Air transportation plays an integral part in the globalization of transportation networks. The aviation industry accounts for 8% of the energy consumed by transportation. Air transport has high energy consumption levels, linked to high speeds. Fuel is the second most important budget for the air transport industry accounting for 13-20% of total expenses. This accounts for about 1.2 million barrels per day. Technological innovations, such as more efficient engines and better aerodynamics, have led to a continuous improvement of the energy efficiency of each new generation of aircrafts.

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#### Link Magnifier: Flights use massive amounts of fuel and any decrease could be counted by the millions.

Business Day 11, August 11,2011, (Aviation fuel: Airlines groan as high cost impact operations), <http://www.businessdayonline.com/NG/index.php/aviation/25820-aviation-fuel-airlines-groan-as-high-cost-impact-operations> ejj.

The skyrocketing prices of aviation may have taken its toll on airlines as they now spend billion in sourcing for the commodity which account for over 50 percent of the cost of their operations. Although, the commodity is no longer scare as claimed Wale Tinubu, national chairman of Major Oil Marketers Association of Nigeria (MOMAN), the airlines are getting the product at high rates, a situation that has impacted on all aspects of their operations. At least on a daily basis, an airline spends millions on fuel consumption while they get the pump price at N180 per litre. For instance, Arik Air Chairman, Joseph Arumemi-Johnson Ikhide during the visit of General Electric officials to his company, disclosed that with 126 flights daily, the airlines needs about 500, 000 litre in a day to power its flights.

### Link: Bering Strait

#### Link: Plan decreases fuel consumption and therefore decreases US oil demand.

Petrovsky 11, Dr. Vladimir Petrovsky- Chief Researcher and Academic Secretary for Public and Media Relations, Russian Academy of Sciences (RAS), Russian Political Science Association (RPSA), Professor, Chair of Global Politics, Higher School of Economics, October 04, 2011, (Bering Strait Project - Russian Perspective Update), <http://www.upf.org/programs/bering-strait-project/4018-v-petrovsky-bering-strait-project-russian-perspective-update> ejj.

The proposed connection of Russian and North American energy systems via the Bering Strait transportation link could save 3%-5% of energy consumption, which is consumes several billion US dollars annually. Besides that, the project would allow linkage and thus increase the productivity of tidal electric power plants on both sides of the Bering Strait.

The project will boost technical innovation, as it will require totally new technologies for planning, project development, construction, the development of the adjacent territories, etc.

### Link: Bio Fuels

#### Biofuel Reduced Oil Dependency

McAdams 7-10-12 (Michael J., President Advanced Biofuels Association

Committee on House Energy and Commerce Subcommittee on Energy and Power, AMERICAN ENERGY INITIATIVE; COMMITTEE: HOUSE ENERGY AND COMMERCE;

SUBCOMMITTEE: ENERGY AND POWER, CQ Congressional Testimony)

As a leading voice for America's domestic biofuels industry, the Advanced Biofuels Association (ABFA) represents over 45 companies deploying advanced and renewable technologies that are helping to drive America's new economy by creating jobs and reducing our dependence on foreign oil by adding to our domestic fuels production capacity. These American made fuels are contributing to U.S. economic and energy security, and are posed to expand their role. The ABFA supports public policies that help contribute to a truly "all of the above" energy portfolio for the United States.

Unique to our Association is the fact that a significant number of our companies are making fuels referred to as "drop in," which do not require changes to existing infrastructure, as well as cellulosic fuels including ethanol. As this Committee considers the "Open Fuel" policy, we would urge you to be mindful and not pick a winner as you balance the competing strengths of the various technologies and molecules.

Today I want to leave you with two points. First, the Renewable Fuels Standard (RFS) is the bedrock of our nations' renewable transportation fuels policy and is directly responsible for the progress that has been made to date in the advanced biofuels sector. Second, as a result of this policy a number of companies have already made significant investments in R&D, pilot and demonstration phases as well as commercial deployment. A number of sophisticated manufacturing companies are poised to build the first generation of commercial scale advanced biofuels plants in the US, with over a billion dollars of private capital poised to enter the market. As you well know, uncertainty chills investment - and uncertainty about whether the Congress might change the rules at this critical time by changing the RFS would have serious negative implications for those who have already invested to build this industry.

Biofuels, as you will hear from my colleague Mr. Dinneen, have already made a significant contribution to our nation's transportation fuel supply. We began our journey in renewable fuels policy with ethanol in 1978. It took twenty years to deliver the first 2 billion gallons of fuel. Since the adoption by this Committee of the Renewable Fuels Standard in The Energy Policy Act of 2005, we have seen an explosion of gallons in the U.S. renewable fuels pool.

Today the ethanol industry produces over 14 billion gallons of fuel annually, and last year exported over a billion gallons, with over a half a billion gallons going to Brazil. As the BP Statistical Review of World Energy, 2012 reports, the United States now boasts 48 percent of the worlds' total renewable fuels production.1 This represents 10 percent of our domestic gasoline consumption - a significant proportion. Combined with increased domestic oil production and decreasing U.S. fuel consumption, we are becoming steadily less reliant on imported oil - and with advanced biofuels about to reach scale this will only continue.

It was only five years ago that this Committee further extended the government's commitment to renewable transportation fuels by passing and sending the Energy Independence and Security Act of 2007 to President Bush for his signature. As you know, that legislation challenged the industry to produce 36 billion gallons of renewable fuels by 2022. In less than five years we already have new operating plants churning out hundreds of millions of gallons of advanced biofuels. If you consider that it generally requires at least eighteen months to two years to site, permit and build a plant--this is simply a remarkable achievement of innovation, development and investment to deliver these gallons so rapidly. And many more are on the way.

My message is simply that it has only been five years. The RFS is fundamentally working, and we are just getting started. Uncertainty in the RFS today would have a chilling effect on these investments.

Let me conclude by observing this new industry is helping to make America steadily more energy secure and keeping more of our energy spending here for American produced fuels. The industry is managing three principle risks: the scale up of technology, the volatility of commodities, and the certainty of regulatory policy. We all watched the price of oil spike earlier this year. But the policy governing that is in your hands. You have the ability to send a signal to the industry and the markets that you stand behind the RFS. You need to send that signal as it will continue to drive the progress which I have reported to you this morning.

Thank you for the opportunity to testify before you this morning. I look forward to answering any questions you may have.

### Link: Bikes

#### Link: a turn to bikes and public mass transit decreases oil consumption.

Gelder 12, Sarah van, July 24, 2012, News Analyst, Yes! Magazine, (Climate Emergency Action Plan: Five Ways We Can Still Avert Catastrophe), <http://truth-out.org/news/item/10503-climate-emergency-action-plan> ejj.

3. We need to rethink how we build towns and cities, and how we get around. The time for car-dependent, sprawling suburbs is over. Europeans use a fraction of the gas we use because cities and towns are compact, public transportation is efficient, and walking and bicycling are well supported and safe. Europeans are also far less likely to be obese and unhealthy. There is a connection. With houses and shopping malls sitting abandoned, now is the time to redevelop a more compact, pedestrian-friendly way of life: neighborhood shops, and a local food and energy supply.

**Increased bicycle use would cut down oil consumption over the next decade**

**Davis No Date** (Jonita Davis is freelance writer for the national geographic magazine and marketing consultant. She attended Purdue university where she got her bachelors degree in literature, “The pros for the environment of riding bikes”, <http://greenliving.nationalgeographic.com/pros-environment-riding-bikes-20408.html>)

Bike riding has always been a more cost-effective mode of transportation when compared to personal motor vehicles and public transportation. A bike is free to operate and maintenance is inexpensive. The riding is also a healthy option, as the bikes are fueled solely by the power of your own muscles. Bike riding also benefits the environment in significant ways. No Air Pollution The environmental hazards of motorized vehicle traffic are no secret. According to the University of North Carolina Highway Safety Research Center, transportation emits large amounts of pollutants into the atmosphere. The university's research found that 80 percent of the carbon monoxide in the atmosphere came from motorized vehicles that operate on gas and diesel. These sources also contribute 55 percent of the nitrogen oxide pollution in the air. Riding a bike, however, contributes zero pollutants, a statistic that is definitely a pro for the environment. **No Nonrenewable Fuels Burned The University of North Carolina Highway Safety Research Center has also found that motorized vehicles guzzle millions of barrels of oil each day in the form of gas and diesel The U.S. Department of Energy estimates that approximately 10 million barrels of oil were used each day in 2010. Individuals riding bikes are not in cars, so they help reduce petroleum consumption. An increase in bike ridership could cut down on oil consumption over the next decade, because bicycles consume no fuel. Better for Short Trips Short car trips waste more fuel and create more pollutants than long car trips.** The University of North Carolina Highway Safety Research Center found that 60 percent of the pollutants created from motorized transportation was produced during the first few minutes of the ride. In fact, starting the car cold and then driving up to four miles produces more air pollutants than driving on a long trip. The university found that 15 pounds of pollution could be saved if drivers would park their cars on short trips of four miles or less and ride a bike instead Reducing the Parking Problem Parking lots are a problem for the environment, especially with the increasing number of motorized vehicles on the road. This means clearing more land for parking that was once home to plant and animal life. The asphalt, roadway tars and other chemicals poured to make parking lots also release pollutants into the air and create heat islands that contribute to global warming. The removal of trees and complementary vegetation eliminates vital air cleaners that help reduce the quantity of carbon dioxide in the air. Bicycle parking requires little space, which means that bikes help minimize the heat island effect and also preserve habitats.

### Link: Bus

**Bus transit reduces oil dependence**

**NRDC** 10/3/20**01** (Natural Resources Defense Council <http://www.nrdc.org/air/energy/fensec.asp> “Reducing U.S. Oil Dependence A Real Energy Security Policy” accessd July 26, 2012)

Congress should offer states and cities more help to meet the surging demand for public transportation. Funding backlogged **bus** and rail **transit projects**, and rebuilding inter-city rail systems, **would reduce U.S. oil dependence, reduce traffic congestion,** and clean the air. Public transportation ridership has surged in recent years, reaching levels not seen since the 1960s. According to the Federal Transit Administration, starting in the early 1990s **public transit saved the country 1.5 billion gallons of fuel annually** -- **nearly 36 million barrels of oil**. **Cities are expanding** rail **and bus systems to respond to meet growing demand** -- nearly 1,500 miles of new light rail and heavy rail lines were in proposal, planning, design or construction phases in 2000.Since the September 11 attacks, train ridership has increased 10 percent to 15 percent over last year's levels,according to AMTRAK. Rebuilding our rail capacity to capture **a greater share of inter-city trips would save oil, a**nd reduce congestion in the air and on our roads.

### LINK: Congestion

#### Decreased congestion will trade off with Middle Eastern oil imports

Brookings Institute 8 ("A Bridge to Somewhere: Rethinking American Transportation for the 21st Century," a multi-year initiative to help guide policymaker decisions, http://www.brookings.edu/~/media/research/files/reports/2008/6/transportation%20puentes/06\_transportation\_puentes\_report.pdf)

The effects of congestion are just as pronounced. The average American in metropolitan areas wastes 26 gallons of fuel each year due to congestion. This may not seem like much, but aggregated it means nearly 2.9 billion gallons each year is wasted–nearly one-fifth of the total equivalent of oil imported from the Persian Gulf last year.17 Factoring in this wasted fuel, metropolitan congestion is now costing Americans about $78.2 billion each year, an increase of $20 billion since just 2000.18

#### Link: Road transport accounts for 85% of total energy for transport sector, decreasing road transport would decrease consumption drastically.

Rodrigue 09, Jean-Paul Rodrigue- Department of Economics & Geography at Hofstra

University since 1999 (THE GEOGRAPHY OF TRANSPORT SYSTEMS- SECOND EDITION), 2009, <http://people.hofstra.edu/geotrans/eng/ch8en/conc8en/ch8c2en.html> ejj.

Energy consumption has strong modal variations:

Land transportation accounts for the great majority of energy consumption. Road transportation alone is consuming on average 85% of the total energy used by the transport sector in developed countries. This trend is not however uniform within the land transportation sector itself, as road transportation is almost the sole mode responsible for additional energy demands over the last 25 years. Despite a falling market share, rail transport, on the basis of 1 kg of oil equivalent, remains four times more efficient for passenger and twice as efficient for freight movement as road transport. Rail transport accounts for 6% of global transport energy demand.

### Link: Electric Transit

#### Link: Electric alternatives drastically reduce our oil consumption and we’re already approaching a brink.

Montclair Times 12, July 19, 2012, Gwen Orel- Staff Writer ('Current' event on electric vehicles at Nauna's Bella Casa in Montclair), <http://www.northjersey.com/news/162990806_Watt_s_up_at_Nauna_s__A__current__event_on_electric_vehicles.html?c=y&page=2> ejj.

"This changes everything," Neff said of Montclair as a way-station for electric vehicles. Deputy Mayor Robert J. Russo said that more people will shift to electric cars when there are charging stations available. "I’d like us to have dozens of charging stations, especially in multi-family buildings," said Russo, who currently drives a hybrid car but is looking to make the switch to all-electric."It’s a red alert day for air quality," Environment New Jersey’s interim Director Doug O’Malley told the gathered crowd, roasting on one of 2012’s most scorching mornings. "It should be breaking into triple digits within a couple of minutes. Days like today are good reminders on why we need to be doing more to fight global warming and pollution. "Over the next three years, electric cars will save three million gallons of gas a year," O’Malley said. "They will also reduce up to 55,000 tons of global warming pollution. The time for electric cars is now. They’re here. They’re on the road. It’s time to plug them in and start respecting not only the planet but also New Jersey."

**Electric vehicles lower dependence on foreign oil**

HOGAN July 26, 2012 (DR. KATHLEEN HOGAN Deputy Assistant Secretary for Energy Efficiency in the Office of Energy Efficiency and Renewable Energy (EERE) at the U.S. Department of Energy, Testimony to the Committee: House Science, Space and Technology; Subcommittee: Energy and Environment Amin Gulamali)

As part of the DOE portfolio approach, **the Department places an increased emphasis on vehicle electrification.** Electric vehicles (EVs) - both plug-in hybrid electric vehicles (PHEVs) and all- electric vehicles - make sense for a number of reasons: Electricity is cheaper than gasoline for powering a vehicle (at about $1 per gallon equivalent gasoline price); **EVs will reduce America's dependence on petroleum, protecting consumers from price spikes and keeping the money Americans spend on energy here at home**; and EVs could potentially offer the same or better driving performance compared to today's gasoline powered vehicles. We face tough competition in the global race for a clean energy economy, but President Obama has put in place a foundation for American leadership in the development, deployment, and manufacturing of advanced vehicles and batteries. **While the President's vision for American leadership is ambitious, progress toward this end goal will put the U.S. on a path to lead in the clean energy economy. It will support real consumer choice in the technologies that power our vehicles, helping to end our dependence on oil and reduce greenhouse gas emissions from the transportation sector**. **Plug-in electric vehicle sales continue to increase, with sales growth outpacing that of gasoline hybrid electric vehicles when they were first introduced. We expect to see this trend continue**, as several new vehicle models were introduced earlier this year, providing additional choices for consumers considering electric drive vehicles.

### Link: Emissions

#### Reducing Greenhouse Gas Reduces Dependence on Oil

Millar 9-18-08 (Bill, President American Public Transportation Association, REDUCING GREENHOUSE GAS, Congressional Quarterly)

Our nation's transportation sector produces one-third of all carbon dioxide (CO2) emissions in the U.S., and unfortu-nately transportation is the fastest growing source of domestic greenhouse gas emissions. Approximately 85 percent of transportation sector emissions are related to the surface transportation system. To reduce these emissions there are three widely accepted options: first, we can make our cars and trucks more fuel efficient; second, we can use alternative sources of energy that release fewer greenhouse gases when consumed or produced; and third, we can provide more travel options that allow Americans to leave their cars behind. While we need to undertake all of these options, for the purpose of this hearing I will focus principally on the importance of the last option. To prevent potentially catastrophic increases in average global temperatures, the scientific community has determined that the emissions of all greenhouse gases must be reduced by as much as 85 percent below 2000 levels by 2050.[1] Achieving emissions reductions on this scale in the transportation sector will not be easy. Current research indicates that future growth in private motorized vehicle travel in the next 30 years could negate the emission savings from the recent changes in Corporate Average Fuel Economy (CAFE) standards and the low carbon fuel requirements contained in the Energy Independence and Security Act of 2007 (P.L. 110-140).[2] Stated simply, this means that for the United States to achieve reductions in transportation emissions on the scale required to limit the potentially disastrous effects of global warming, we must offer Americans more travel choices. We cannot rely alone on future vehicle improvements and unproven clean fuel sources to address transportation emissions. The sooner we begin to address the problem of climate change, our chances for success are better. Americans need more travel choices that allow them to preserve the mobility they have come to expect and reduce their individual carbon footprint. Public transportation can help reduce greenhouse gas emissions. It can do it now, and it can do it by expanding mobility choices. The Role of Public Transportation, Energy Efficient Land Use, and Improved Transportation Choices in Reducing Emissions Public transportation investment, energy efficient land-use policies and other strategies that promote transportation choices are proven ways to reduce emissions from the transportation sector. Public transportation use currently reduc-es CO2 emission by more than 37 million metric tonnes every year in the United States by reducing travel and conges-tion on roadways and supporting more efficient land use patterns.[3] Those who choose to ride public transportation reduce their carbon footprint and conserve energy by eliminating travel that would have otherwise been made in a pri-vate vehicle, and even the length of vehicle trips is considerably shorter for households that live near transit. In fact, households within close proximity of public transportation drive an average of 4,400 fewer miles annually than those with no access to public transportation. Unfortunately, only 54 percent of American households have access to any public transportation services according to U.S. Census data, and American's can't use what they don't have. How do we unleash the power of public transportation to reduce greenhouse gas emissions? To begin, the federal government must do its part to expand transit availability and promote energy efficient land-use patterns and transit-oriented development. Efficient land use, combined with good transit service, particularly fixed guideway service- sub-way, light rail, commuter rail, streetcar and bus rapid transit- produces results far beyond the immediate benefit of in-creased use of public transportation. Efficient land use has the potential to significantly change the way we live and travel, reducing our individual carbon footprints while preserving and enhancing our mobility. Higher densities allow for closer proximity of housing, employment and retail, reducing driving distances and enabling communities to plan for and support alternative travel options. In many central business districts, trips taken for shopping, dining or other non-commuting purposes are often made on foot even by those who drive to work. The Many Benefits of Public Transportation Investment While my testimony today has focused on the emissions reductions benefits associated with public transportation use, it is important to point out that public transportation provides enormous benefits beyond it contribution to improving the environment. In particular, public transportation investment by the federal government offers unique benefits that cannot be measured solely in terms of emissions reductions. Among its many benefits: Public transportation helps Americans escape the high cost of gasoline, and it promotes energy independence. Providing Americans more access to public transportation not only reduces greenhouse gas emissions, it also frees individuals and families from the heavy burden of high gasoline prices. On average, a transit user saves more than $9,500 per year by taking public transportation instead of driving based on today's gas prices. These savings are im-portant not only for individuals and families, they are important when we consider the urgent need for the United States to attain energy independence. Transit use already saves the U.S. 4.2 billion gallons of gasoline each year, the equivalent of more than 11 million gallons per day. That amount of savings is equivalent to oil refined from 102 supertanker loads, or more than three times the amount of oil we import from Kuwait each year.[4] Public transportation contributes to the growth of a strong economy.

### Link: Freight

#### Current Freight travel is key to oil consumption.

Zuber 12 (James Zuber; Spokes person for the OOIDA; IMPACT OF GAS PRICES ON SMALL BUSINESSES IN ILLINOIS; ¶ COMMITTEE: HOUSE SMALL BUSINESS; SUBCOMMITTEE: ECONOMIC GROWTH, TAX AND CAPITAL ACCESS; Address to Congress; https://mail-attachment.googleusercontent.com/attachment/?ui=2&ik=045dd0c06f&view=att&th=138c437c397241c5&attid=0.1&disp=vah&realattid=f\_h5433n0b0&zw&saduie=AG9B\_P-GYc2Whg8ezEoIHf-TvLIj&sadet=1343327866092&sads=n-SBUTrjAtDvmufbMINuDjP1A5U&sadssc=1)

To give you some perspective, the average OOIDA member runs their truck over 100,000 miles each year while getting generally somewhere between five to seven miles per gallon depending upon their operation. Most of us will be operating long haul trucks equipped with either twin 135-gallon tanks or twin 150-gallon tanks, so we can easily see a bill of over $1,000 when we fill up. During 2011, I ran approximately 122,000 miles and paid an average of $3.90 per gallon. My fuel costs last year were just under $80,000. Whenever the price of a gallon of diesel fuel increases by a nickel, a trucker's annual costs increase by $1,000. Such price increases result in an enormous extra burden on the small business trucker whose average annual income is approximately $40,000. Trucking is a hyper competitive business and each of us operates on extremely thin margins. High fuel prices do not simply impact me when I fill up at the truck stop. The price of tires, engine hoses, and so many other parts critical to the safe operation of my truck - and my business - are strongly linked to the price of oil. All of these have seen steady price increases as oil and fuel prices have increased over the long-term. In the short term, we can see decreased loads due to fuel price spikes as companies may have to hold back on replacing inventory due to decreased demand or a need to hold on to cash to meet their own fuel costs. For these reasons, the price of fuel represents one of the largest risks to the success of a small business trucker.

#### Demand is rising due to the trucks on the road

Hassenboehler 7/10 (12, Thomas, VP of America’s Natural Gas Alliance, Committee on House Energy and Commerce Subcommittee on Energy and Power, CQ Congressional Testimony)

Diesel fuel use is rising. Our consumer economy relies on heavy- duty trucks and fueling networks to transport our nation's goods and drive our economy. Due to growing demand over the last several decades, the number of trucks - and associated diesel consumption - is increasing. Of the 4.8 million heavy-duty trucks (Class 7 & 8)9 on our roads, 4.2 million run on diesel. These heavy-duty trucks consume over 70% of all diesel in the United States. By 2035, the number of heavy-duty trucks will increase by almost 70% and will consume 34% more oil to meet our transportation demand.

### Link: High Speed Rail

#### High Speed rail won’t solve oil wars, just results in oil shocks.

Druce 11(Paul Druce; Journalist and Media Co-ordinator; Bad arguments for high speed rail: Oil consumption; http://reasonrail.blogspot.com/2011/06/bad-arguments-for-high-speed-rail-oil.html)

One of the ancillary benefits which is often inappropriately highlighted as a primary benefit by high speed rail proponents is that of reducing American oil consumption. Often, our reliance upon foreign oil, including some from Middle East nations such as Saudi Arabia, is seized upon by such proponents and the defense costs added to the price of oil. This, however, is a flawed notion that ignores the interconnected nature of global trade. Even if we were completely independent from foreign oil, or at least oil not from North America and Europe, including our shipping, we would still fund foreign militaries and place troops in these areas. A sudden lack of oil shipments from Saudi Arabia would cause major oil price shocks globally, not merely to those depending on oil from Saudi Arabia. Even if we were, by perhaps some magical free energy device, completely free from oil use except in raw industrial processes, we would still be gravely damaged economically because our economy depends on foreign trade. Major economic recessions or depressions in our trading partners will cause the same problems here as well.

**High-speed rail leads to less VMT and oil use.**

**Philip Fairey, deputy director of the Florida Solar Energy Center with** more than 25 years of experience in building science research and  received the U.S. Department of Energy's National Award for Innovation in Research in 1984 November 3, 20**08**(Drilling, Alternative Fuels

and Efficiency:Can the United States Wean Itself from Imported Oil?, <http://www.fsec.ucf.edu/en/publications/pdf/FSEC-PF-436-08.pdf> Amin Gulamali)

Finally, **we can reduce vehicle miles traveled (VMT) through several means. Increased use of heavily occupied vehicles (HOV, i.e. carpooling) and increased use of mass transit are two immediate options**, but much more significant would be shifting more of our product distribution from the roads to the rails, where efficiencies are greater than 420 ton-miles per gallon (CSX, 2008). By contrast, our most widely used carriers of goods – Class 8 trucks or “18-wheelers” – are capable of about 175 ton-miles per gallon (Lovins et al., 2005). It **also seems advisable to increase our use of the rails for city-to-city and interstate travel. We can power our trains with electricity rather than oil and we can build and deploy high-speed trains that travel in excess of 225 miles per hour**, as European trains do. **The goal would be to reduce VMT by 10% by 2020 and by 30% by 2030, providing the necessary time to replace single-occupancy passenger vehicle travel with other forms of effective electric mass transit by 2030. This would produce about 1.5 Mb/d in oil savings by 2020 and 2.9 Mb/d by 2030.**

#### High Speed Rails would reduce foreign oil dependence

Hart 2011 (Thomas A., Jr, Vice President, US High Speed Rail Association, OPENING AMTRAK ROUTES TO COMPETITION; COMMITTEE: HOUSE TRANSPORTATION AND INFRASTRUCTURE, Congressional Testimony, 6/22/2011)

We believe our proposal could gain bipartisan support in this Congress, enabling high speed rail to advance instead of stalling in partisan gridlock. And in the near future, we would realize the many benefits of high speed trains attaining top speeds of over 200 miles per hour, providing a welcome transportation alternative to crowded highways and air-ports, creating jobs and economic development, and reducing our dependence on foreign oil.

#### HSR would dramatically decrease oil consumption

YETIV and FELD 10 (Steve, professor of poli sci at Old Dominion U and Lowell, senior energy analyst at the DOE, "Bullet trains will save time, money, and the environment," CSM, http://www.csmonitor.com/Commentary/Opinion/2010/0201/US-high-speed-rail-to-the-rescue)

In addition to the central goal of decreasing oil use and pollution, China seeks to bolster its economy with investment in rail and also to satisfy the demands for mobility of its growing middle class. For America, as fewer people opt for gas-guzzling air or car travel, a high-speed rail system would hit US oil dependence right where it counts: in the gas tank.

### Link: Inland Waterways

#### Link: Inland Waterways spend less than a tenth on fuel than trucks and move as much as 900 trucks. This drastically decreases US oil consumption.

ASCE, 2010. (American Society of Civil Engineers. Navigable Waterways: 2010 Report Card for Pennsylvania’s Infrastructure. 2010. <http://www.pareportcard.org/PDFs/> nav%20 waterways%20Final%20w%20NATL.pdf.)

Inland waterway transportation is generally the least costly transportation mode. The average ¶ cost of moving cargo by barge in the Port of Pittsburgh district ranges between $.005 and $.01 ¶ per ton mile of cargo moved, compared to $.05 for rail and $.10 for trucking. Barge ¶ transportation is more energy efficient and environmentally friendly than rail or truck, which ¶ reduces overland congestion, accident and noxious pollutant emissions. A typical Ohio River ¶ 15-barge tow has a 22,500 ton load capacity, which is the equivalent of 225 rail cars or 900 ¶ tractor trailer trucks. To move these 22,500 tons one mile requires 44 gallons of diesel fuel by ¶ barge, versus 111 gallons by rail and 381 gallons by truck.

#### Inland Waterways are efficient: lower oil consumption

ASCE, 2000. (US Army Corps of Engineers, Institute for Water Resources. Inland Waterway Navigation: Value to the Nation. May 2000. <http://www.spn.usace.army.mil/value_to_> the\_nation/InlandNavigation.pdf)

A principal value of the inland waterways is their ability to efficiently convey large volumes of bulk commodities moving long distances. Towboats push barges lashed together to form a “tow”. A tow may consist of four or six barges on smaller¶ waterways up to over 40 barges on the mighty Mississippi below its confluence with the Ohio. A 15-barge tow is common on the¶ larger rivers with locks, such as the Ohio, Upper Mississippi, Illinois and Tennessee rivers. Such tows are an extremely efficient¶ mode of transportation, moving about 22,500 tons of cargo as a single unit. As can be seen in the graphic, a single 15-barge tow¶ is equivalent to about 225 rail cars or 870 tractor-trailer trucks. If the cargo transported on the inland waterways each year had to¶ be moved by another mode, it would take an additional 6.3 million rail cars or 25.2 million trucks to carry the load. Imagine adding¶ this traffic with the associated air pollution to the already congested rail lines and highways that pass through our communities.¶ The ability to move more cargo per shipment makes barge transport both fuel efficient and environmentally advantageous. On¶ average, a gallon of fuel allows one ton of cargo to be shipped 59 miles by truck, 202 miles by rail, and 514 miles by barge. Carbon¶ Dioxide emission from water transportation were 10 million metric tons less in 1997 than if rail transportation had been used.¶ Inland waterways allow America to realize tremendous savings in fuel consumption, reduced air emissions from fuel combustion,¶ reduced traffic congestion, fewer accidents on our rail lines and highways, and less noise and disruption in our cities and towns.

#### LINK: Barges up to ten times more fuel efficient than tractor trailers, decreases US oil consumption

Baumel and Hurburgh, 2008. (Baumel, C. Phillip, Distinguished Professor in Agriculture and Life Sciences. Hurburgh, Charles R., Professor, Agricultural and Biosystems Engineering Professor, Food Science and Human Nutrition. Estimates of Total Fuel Consumption in Transporting Grain from Iowa to Major Grain Countries by Alternatives Modes and Routes. Iowa State University. July 15, 2008. <http://www.extension>. iastate.edu/Grain/Topics/EstimatesofTotalFuelConsumption.htm)

The metered tractor-trailer truck averaged 186.6 gross ton-miles per gallon and 90.5 net ton-miles per gallon when loaded 50 percent of total miles. The truck averaged 249.6 gross ton-miles per gallon when loaded and 108.8 gross ton-miles per gallon when empty. The 90.5 net ton-miles per gallon is 41.4 percent higher than the 64 net ton-mile estimate from a 1977 study of 25-ton trucks with 50 percent loaded miles.

The 1983 fuel consumption of the seven trucks taken from company records was 82.4 net ton-miles per gallon at 67.5 percent loaded miles and 68.6 net ton-miles per gallon at 50 percent loaded miles. Net ton-miles per gallon increased sharply with higher backhauls. The trucking company executives believe that the difference between the metered and the company record net ton-miles per gallon was largely due to driver performance.

Unit grain trains from Iowa to West Coast ports averaged 437.0 net ton-miles per gallon whereas unit grain train s from Iowa to New Orleans averaged 640.1 net ton-miles per gallon--a 46 percent advantage for the NOLA move. All trains returned empty.

Average barge fuel consumption on the Mississippi River from Iowa to NOLA export grain elevators was 544.5 net ton-miles per gallon, with a 35 percent backhaul rate.

On the Upper Mississippi River, southbound tows achieved 953 net ton-miles per gallon with all barges loaded while the northbound tows achieved only 243 net ton-miles per gallon with a 37.7 percent backhaul.

On the Lower Mississippi River, southbound tows achieved 1,290 net ton-miles per gallon with all barges loaded while northbound tows averaged only 185 net ton-miles per gallon with a 31.5 percent backhaul.

**Inland waterways reduce the consumption of oil through efficiency in cargo transport**

**Rodrigue and Comtois 09**

(Dr. Jean-Paul Rodrigue Professor Dept. of Global Studies & Geography and Dr. Claude Comtois Professor Dept. of Geography, “Energy and Transportation” <http://people.hofstra.edu/geotrans/eng/ch8en/conc8en/ch8c2en.html>)

Further distinctions in the energy consumption of transport can be made between passenger and freight movement: **Passenger transportation accounts for 60 to 70% of energy consumption from transportation activities**. The private car is the dominant mode but has a poor energetic performance, although this performance has seen substantial improvements since the 1970s, mainly due to growing energy prices and regulations. Only 12% of the fuel used by a car actually provides momentum. There is a close relationship between rising income, automobile ownership and distance traveled by vehicle. The United States has one of the highest levels of car ownership in the world with one car for every two people. About 60% of all American households owned two or more cars, with 19% owning three or more. Another trend has been the increasing rise in ownership of minivans, sport utility vehicles and light-duty trucks for personal use and the corresponding decline in fuel economy. Fuel consumption is however impacted by diminishing returns, implying that higher levels of fuel efficiency involve declining marginal gains in fuel consumption. Also, the growth of vehicles-miles travelled is correlated with changes in energy prices and is entering a phase of maturity in several developed countries. **Freight transportation is dominated by rail and maritime shipping, the two most energy efficient modes. Coastal and inland waterways also provide an energy efficient method of transporting passengers and cargoes. A tow boat moving a typical 15-barges in tow holds the equivalent of 225 rail car loads or 870 truck loads. The rationale for** favoring **coastal and inland navigation is based on lower energy consumption rates of shipping and the general overall smaller externalities of water transportation.** **The United States Marine Transportation System National Advisory Council has measured the distance that one ton of cargo can be moved with 3.785 liters of fuel. A tow boat operating on the inland waterways can move one ton of barge cargo 857 kilometers. The same amount of fuel will move one ton of rail cargo 337 kilometers or one ton of highway cargo 98 kilometers.**

### Link: LNG

**Conversion to LNGs would reduce foreign oil dependence and consumption, relieves congestion.**

**Wellkamp** and **Weiss April 14, 2010**

(Nick Wellkamp and Daniel J. Weiss is a Senior Fellow and the Director of Climate Strategy at American Progress, no credentials for wellkamp <http://www.americanprogress.org/issues/2010/04/american_fuel.html>)

**Creating incentives to convert the nation’s heavy vehicle fleet to natural gas would reduce oil use, invest in American energy sources, increase our energy independence and national security, and slash air pollution.** **Natural gas is the cleanest fossil fuel—it produces** less than half as much carbon pollution as coal for electricity and **up to 25 percent less than oil for transportation**. Recent technological advancements in developing unconventional shale gas resources have dramatically increased the amount of recoverable natural gas resources in the United States. And this creates an unprecedented opportunity to use gas as a bridge fuel to a 21st-century clean energy transportation system that relies on dramatically enhanced fuel economy; lightweight, electric vehicles; public transit; advanced bio-fuels; and low-carbon fossil fuels such as natural gas. **Cleaner, domestically produced natural gas has the potential to meet more than one-third of the fuel needs of heavy-** and medium-duty trucks and buses by **2035**. Our analysis, which is based on current fleet turnover rates for each class, determines that deployment of 3.5 million of these natural gas vehicles **by 2035 would save at least 1.2 million barrels of oil per day compared to business as usual, which is more oil than we imported from Venezuela last year.**

### Link: Maritime Infrastructure

#### Link: Maritime transport accounts for almost all of world trade and uses about 7% of all transport energy; a loss in this industry would be a big decrease in oil consumption.

Rodrigue 09, Jean-Paul Rodrigue- Department of Economics & Geography at Hofstra

University since 1999 (THE GEOGRAPHY OF TRANSPORT SYSTEMS- SECOND EDITION), 2009, <http://people.hofstra.edu/geotrans/eng/ch8en/conc8en/ch8c2en.html> ejj.

Maritime transportation accounts for 90% of cross-border world trade as measured by volume. The nature of water transport and its economies of scale make it the most energy efficient mode since it uses only 7% of all the energy consumed by transport activities, a figure way below its contribution to the mobility of goods.

### Link: New Tech

**New vehicle technologies lower dependence on oil.**

HOGAN July 26, 2012 (DR. KATHLEEN HOGAN Deputy Assistant Secretary for Energy Efficiency in the Office of Energy Efficiency and Renewable Energy (EERE) at the U.S. Department of Energy, Testimony to the Committee: House Science, Space and Technology; Subcommittee: Energy and Environment Amin Gulamali)

Today, with the help of the Department's vehicles programs, **the automotive industry is reinventing itself expanding the number of new, more fuel-efficient and environmentally sustainable vehicles and helping to create jobs throughout the vehicle supply chain**. By supporting companies building **everything from advanced combustion engines and turbochargers, to cutting-edge batteries and more efficient tires, the Department is strengthening the global competitiveness** of America's vehicle-related manufacturers**. The transportation sector accounts for approximately two-thirds of the United States' oil consumption** and contributes to one-third of the Nation's greenhouse gas (GHG) emissions.1 Net expenditures for imports of crude and petroleum products have been hundreds of billions of dollars every year. After housing, transportation is the second biggest annual expense for most American families.2 **Improving fuel efficiency of vehicles and developing alternative fuels represents one of the best opportunities we have to reduce our dependence on oil and lower our transportation costs. The economic, national security and environmental costs of our existing vehicles and transportation infrastructure make developing advanced, more fuel- efficient vehicles and alternative fuels an imperative for the Nation**. **The Department is investing in a broad portfolio of near- and long-term vehicle-related technologies that includes electric drive, advanced combustion, advanced fuels and lubricants, biofuels, and hydrogen fuel cells, as well as technologies such as advanced lightweight materials that benefit vehicles regardless of size or propulsion technology**. We have set aggressive goals and targets and have mapped out the strategies to achieve them. We are making significant progress by demonstrating the real promise of all of these technologies and justifying our investment.

**VTP accelerates creation of technologies for light and heavy duty vehicles leading to reduced dependence on oil.**

HOGAN July 26, 2012 (DR. KATHLEEN HOGAN Deputy Assistant Secretary for Energy Efficiency in the Office of Energy Efficiency and Renewable Energy (EERE) at the U.S. Department of Energy, Testimony to the Committee: House Science, Space and Technology; Subcommittee: Energy and Environment Amin Gulamali)

EERE's Vehicle Technologies Program (**VTP) accelerates the development of advanced, energyefficient, environmentally- friendly transportation technologies that reduce petroleum consumption** and lower GHG emissions without sacrificing vehicle performance. **The VTP portfolio reflects a mix of near- and long- term technologies including advanced combustion engines, advanced fuels and lubricants, lightweight materials and propulsion materials, advanced batteries, power electronics and electric motors, and vehicle systems and enabling technologies. Program activities cover technologies applicable to a broad range of vehicles from light-duty passenger cars to heavy-duty trucks. In tandem with the Administration's historic new fuel economy and fuel efficiency standards, DOE's work in all of these areas will help enable the continued improvement of vehicle fuel economy and efficiency, provide consumers with a variety of choices to save money at the pump (or avoid the pump altogether), and strengthen our national energy and economic security by reducing our dependence on oil.**

### Link: Public Transit

#### Public Transit Systems and congestion relief largely reduce oil consumption

Boylan 2008 (Christopher, American Public Transportation Association, FUTURE FUNDING OPTIONS FOR THE HIGHWAY TRUST FUND, Testimony to Congress, 2/13/2008)

Whatever the precise number, I think we all agree that the need is considerable, it is real, and it is growing. As the commission report notes, without significant increased investment, the average condition of transit assets will gradually decline over time, leading to a relative shift of riders from transit to highways. This would conflict with national goals of "energy independence and environmental considerations." Considering the many benefits of public transportation and in light of the increased demand on our transportation system as a whole, it is critical that the system is not only adequately maintained, but designed to accommodate future growth. The benefits of public transportation to the country in terms of conserving energy, minimizing climate change and reducing highway congestion are well documented. A household that uses public transportation saves more than $6,200 every year, compared to a household with no access to public transportation. This amount is more than the average household pays for food each year. FEDERAL ROLE IN INVESTING IN PUBLIC TRANSPORTATION As I mentioned earlier, at APTA we are particularly pleased that the Commission calls for an expanded federal role for public transportation. The report notes that the "national interest in quality transportation is best served when modes are rebalanced and travel options are plentiful," and that "public transportation and intercity passenger rail will play a significantly larger role in America's mobility." Our transit systems work symbiotically with highways to alleviate congestion, allowing for more efficient transport of passengers and goods. This interrelationship is readily acknowledged by our partners at AASHTO, ARTBA, the Chamber of Commerce and others with whom we work closely, and it will continue to be critical as our population and economy continue to grow. In addition, public transportation meets national goals of energy independence and the reduction of global warming. A recent report by ICF International, Public Transportation and Petroleum Savings in the U.S.: Reducing Dependence on Oil, found that using public transit saves our nation 1.4 billion gallons of gasoline every year (the equivalent of 108 million cars filling up or almost 300,000 gallons a day). Another study released by APTA and prepared by Science Applications International Corporation, Public Transportation's Contribution to U.S. Greenhouse Gas Reduction, found that in a two adult, two car family, a single person switching to public transportation for their commute can reduce their household's carbon footprint by 10% - which is more effective at reducing greenhouse gases than environmentally friendly household activities such as home weatherizing, changing to efficient light bulbs, and using energy efficient appliances. Today's hearing on the impact of high gasoline prices is like the rerun of a bad movie. It's up to you to change the finale. In lieu of wands, bullets, or slogans, this long-term problem requires long-term solutions. Congress needs to enact an "all of the above" strategy that includes slashing oil dependence by supporting the doubling of vehicle fuel economy standards, investing in alternative fuels, rejuvenating our public transportation infrastructure, and paying for it by ending Big Oil tax breaks. The American people would give this ending a standing ovation

#### Public transit systems would decrease U.S. oil demand

Weiss 3/27 (Daniel J., Senior Fellow Center for American Progress Action Fund, JOBS AND GASOLINE PRICES:; COMMITTEE: HOUSE NATURAL RESOURCES, Congressional Testimony, 3/27/2012)

Investments in buses, subways, and trains can also reduce our dependence on oil and create jobs. Public transportation saves the U.S. 900,000 automobile fill-ups per day, which equal 4.2 billion gallons of gasoline per year. Every $1 billion of investment in public transportation infrastructure supports 36,000 jobs in a variety of industries - construc-tion, finance, insurance, real estate, retail and more. Despite these overwhelming benefits, our public transportation infrastructure is woefully underfunded. A recent CAP report "Meeting the Infrastructure Imperative: An Affordable Plan to Put Americans Back to Work Rebuilding Our Nation's Infrastructure," by Donna Cooper found that an additional investment of $15.7 billion annually is needed to meet our most urgent public transportation infrastructure needs. This would increase oil savings and create jobs.

#### Expansion of public transit reduces dependence on foreign oil imports

Millar 2008(William, President of the American Transportation Association, PUBLIC TRANSPORTATION AND FOREIGN OIL, Congressional Testimony, 9/9/2008)

Americans are changing their travel behavior because they realize that taking transit, using a bicycle or walking can dramatically reduce their commuting costs. On average, a transit user saves more than $9,596 per year by taking public transportation instead of driving based on today's gas prices. These savings are important not only for individuals and families, they are important when we consider the urgent need for the United States to attain energy independence. By reducing travel and congestion on roadways and supporting more efficient land use patterns, transit saves the U.S. 4.2 billion gallons of gasoline each year, the equivalent of more than 11 million gallons per day. That amount of savings is equivalent to oil refined from 102 supertankers, or more than three times the amount of oil we import from Kuwait each year.

#### Modernizing infrastructure and reducing congestion drastically cuts US oil use.

William Millar President, American Public Transportation Association, 2008 (CQ Congressional Testimony September 9, 2008 Tuesday PUBLIC TRANSPORTATION AND FOREIGN OIL

Committee on Senate Banking, Housing and Urban Affairs September 09, 2008)

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**Increased Public Transit use reduces oil consumption**

American Public Transport Association 02 (APTA has been the leader in advocating for increased public transit use since the initiation of transit into the economy ,July 17, 2002, “Increase in Public Transit Use Could Reduce Oil Dependency by 40%” <http://evworld.com/news.cfm?newsid=2566>)

**A new independent study by three top economists demonstrates that increasing public transportation use is the most effective, and possibly the only way** to improve air quality and **reduce energy consumption without imposing new taxes, government mandates or regulations**. Based on the findings of the new national study, energy and environmental savings have been calculated for more than a dozen major metropolitan areas in the United States. "Conserving Energy and Preserving the Environment: The Role of Public Transportation," released today in Washington, DC, concludes that public transportation generates 95 percent less carbon monoxide (CO), 92 percent less in volatile organic compounds (VOCs), and about half as much carbon dioxide (CO2) and nitrogen oxide (NOx), per passenger mile, as private vehicles. The report was authored by: Dr. Robert J. Shapiro, Managing Director of Sonecon, LLC, and non-resident Fellow of the Brookings Institution and the Progressive Policy Institute, Dr. Kevin A. Hassett, Resident Scholar of the American Enterprise Institute; and Dr. Frank S. Arnold, President of Applied Microeconomics, Inc. **In energy conservation, the study shows that public transportation already saves more than 855 million gallons of gasoline or 45 million barrels of oil a year. This number is equivalent to the energy used to heat, cool and operate one-fourth of all American homes annually, or half the energy used to manufacture all computers and electronic equipment in America annually**. "We all know that a rail car or bus carrying 40 people is far more efficient than a car moving just one person. What people may not realize is exactly how much energy is being saved, and **how these savings add up to millions of barrels of oil conserved** and millions of tons of harmful emissions avoided each year," said Dr. Robert J. Shapiro, co-author of the study. "**Increased use of public transportation is an important answer to** two **national challenges -- greater energy independence** and a cleaner environment -- that our nation has been grappling with for decades." **The study also shows that if one in ten Americans used public transportation regularly, U.S. reliance on foreign oil could be cut by more than 40 percent. This is nearly equivalent to the amount of oil we import from Saudi Arabia every year.** Environmental benefits would also be significant. Without any new government mandates, regulations or taxes, the United States would be able to reduce carbon dioxide emissions by more than 25 percent of the standard set under the Kyoto Agreement. Among the study's other major findings: Even small increases in transit usage would help many of the 16 major U.S. cities, which currently fail to meet EPA air-quality standards for CO or smog, improve air quality. **For every passenger mile traveled, public transportation is twice as fuel efficient as private automobiles, sports utility vehicles (SUVs) and light trucks**. If one in seven Americans used public transportation for their daily travel needs, they would help prevent global warming in the United States by cutting CO2 by the equivalent of nearly 20 percent of the CO2 emitted from fuel burned for residential uses and more than 20 percent of all CO2 emitted by commercial enterprises. If one in five Americans used public transportation daily, it would help reduce CO pollution by more than all the CO emitted from the entire chemical manufacturing industry and all metal processing plants in the United States. "This study clearly shows that more energy is used getting people from place to place than in producing all goods or running all the homes in America," said William W. Millar, President of the American Public Transportation Association (APTA), the non-profit organization that commissioned the study. "**We can continue to debate domestic oil exploration,** emissions requirements, and **the stability of foreign sources of energy, but any serious plan to reduce oil dependency and clean up the air must include ways to increase public transportation use**. This is simply our country's greatest opportunity to conserve energy and improve the environment." "**Increasing the use of public transportation needs to be an essential element of our national energy** and environmental **policies**," said Millar. "If we don't make transit a national priority by increasing investment, America's enduring economic and environmental health will be in jeopardy." Noting that the report is especially timely because of today's designation as a "Code Red" day, Washington Metro Chief Executive Officer Richard A. White said, "Our Washington Metro region is on the verge of reclassification by the U.S. Environmental Protection Agency as a "severe non-attainment area" for air quality. Unless the region can show it can meet federally imposed air quality standards, construction of new transportation projects will be postponed. I believe fervently that the Metro system offers our region the most immediate opportunity to improve our air quality. If we get can get more people out of their cars and onto the Metro system, we will notice a marked improvement in the region's air quality."

#### Link: Plan increases mass transit therefore decreasing the use of oil by the United States.

Sovacool 07,(Benajmin K., Professor at Vermont Law School and founding, Dirctor of the Energy Security & Justice Program, July 23, 2007 Solving the oil independence problem: Is it possible?)

5.3. Encouraging mass transit

Changing community design and promoting more mass transit and light rail systems would also induce substantial oil savings. The suburbanization of America has resulted in a tripling of vehicle use in the past 30 years. The promotion of location-efﬁcient mortgages that reward those who build and buy homes near public transit, tax-free beneﬁts for employees who use mass transit or bike to work, streamlined ﬁnancing for public transportation projects that signiﬁcantly increase mobility of commuters, and more transit-oriented development zones could drastically re- duce oil consumption. The NRDC (2004) estimates that if builders constructed all homes in the next 10 years as smart-growth communities (communities that offer housing near jobs, public transportation, and walkable neighborhoods), more than 500,000 barrels of oil per day could be reduced. If the government were to support a large program to design carpool lanes along all motorways, designate park and ride lots, and match riders, an additional 1.0 MBD could be saved (International Energy Agency, 2005).

**Public transportation reduces US dependency on oil**

**Bailey 07 –** Linda Bailey, January 2007, Ameriprise Financial Advisor on Tax Public Transportation in the US reduces dependence on oil.

Public transportation provides greater freedom, access, opportunity and choice for Americans from all walks of life and from all across the country. Ridership is up 25.1 percent since 1995, and **the millions of Americans who use public transportation** each weekday know it **saves money and gasoline.**This independent analysis looks for the first time at what public transportation saves –both for individual households and for the nation as **a** whole. In addition, it explores apossible future where many more Americans would have the choice to take public transportation. It was commissioned from ICF International by the American Public Public Transportation Reduces U.S. Foreign Oil Dependence Using conservative assumptions, the **study found that current public transportation usage reduces U.S. gasoline consumption by 1.4 billion gallons each year.** In concrete terms, that means: **108 million fewer cars filling up – almost 300,000 every day.** **34 fewer supertankers leaving the Middle East – one every 11 days. Over 140,000 fewer tanker truck deliveries to service stations per year. A savings of 3.9 million gallons of gasoline per day.**These savings result from the efficiency of carrying multiple passengers in each vehicle,the reduction in traffic congestion from fewer automobiles on the roads, and the variedsources of energy for public transportation.Public transportation also saves energy by enabling land use patterns that create shorter travel distances, both for transit riders and drivers. We hope to estimate these savings in future research, but were not able to include them in this report.**Expanding Public Transportation Would Double Petroleum SavingsThe dramatic increase in ridership over the past decade demonstrates Americans’ cleardesire for more public transportation options. So what would happen if publictransportation services were expanded so that ridership doubled? Total national fuelsavings from public transportation would double to 2.8 billion gallons per year, or more if** **improved coordination between land use plans and public transportation could replace**

**even more car travel.**

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Lower prices won’t revive demand after public transit switch.

5/15/12 HUFFINGTON POST (Matt Sledge is a reporter for the Huffington Post based in New York. A graduate of Brown University, he was previously the Rhode Island director for FairVote

<http://www.huffingtonpost.com/2012/05/15/ed-rendell-gas-price_n_1519025.html>)

Former Pennsylvania Governor Ed Rendell said Tuesday that the current drop in gas prices could significantly dampen one of the GOP's major economic talking points against President Barack Obama -- but only if prices remain low through November.

Rendell, who has emerged as a key Democratic Party spokesman on infrastructure investment, made his remarks as a conference committee in Congress continues discussing how to fund an extension of the federal transportation bill. He and other transit advocates argued the final bill passed out of Congress should avoid any drastic changes to public transportation. For months, the GOP has been hammering Obama with dubious claims that high gas prices are somehow related to the Keystone XL pipeline. The price drop, said Rendel, "removes what is probably the most serious negative in the the economic picture today." "It wipes that issue away, and that's a huge plus to the president," he said. But he also noted that will only be the case "if the drop continues all the way to November." For Rendell and other transportation advocates, falling gas prices are not a reason to skimp on mass transit in the next federal transportation bill. **At $3.73 per gallon on average, gas may cost 17 cents less than it did just a month ago** -- **but boosters say public transportation is habit-forming and that even temporary drops in gas prices can create loyal bus and subway riders. "While commuters are initially drawn to public transportation because of gas spikes, they remain public transportation users as prices fall,"** said Michael Melaniphy, the president of the American Public Transportation Association, on a conference call with Rendell. APTA released an analysis on Tuesday projecting that even if gas prices fall back to their 2011 **average of $3.52, public transportation would still see an increase of 200 million** riders this year. Over the long run, said Rendell, "gas prices are going to continue to rise." But that isn't the only thing that will keep people out of their cars, he argued. "There's also the congestion factor. Congestion on America's highways and roads has almost reached an intolerable level," he said. Rendell and the heads of local transportation system heads on the call encouraged Congress to see the transportation network as a system, where mass transit offered drivers an additional choice in times of high gas prices. Advocates are hoping that the final product of the long-delayed federal surface transportation bill -- which has now been extended nine times since September 2009 in lieu of fresh legislation -- will keep funding levels for public transportation steady. The Senate's bipartisan bill, which would do so, passed on a 74-22 vote in March. House Republicans, however, have signaled they would prefer to see guaranteed funding levels for public transportation, pedestrian facilities and bike paths stripped away. As cars become more efficient and people drive less, the National Highway Trust, which funds the largest chunk of transportation programs, is going bankrupt. Because of that budgetary pressure, the Senate bill simply keeps transportation funding level -- despite mounting infrastructure spending needs. "The best that we can afford at this point is to do no harm," said Rendell. "But in 2013, it seems to me the Congress and the administration have to come to grips with [infrastructure] problems."

#### LINK for Public Transportation

#### BRINK/LINK: US is increasing a move to biofuels in the SQ which pushes us closer to our impact. The SQ combined with an increase in public transportation could be lethal.

Weiss 12, Daniel J., May 31,-Center for American Progress Action Fund, Capitol Hill Hearing Testimony, (Administration Energy Policies; Committee: House Oversight and Government Reform) ejj.

Because of the fuel economy standards that will take effect from 2011 to 2016, the EIA predicts that passenger (light duty) vehicle miles traveled will increase by 16 percent from 2009 to 2019, while oil use will increase by only 3 per-cent. This does not include the proposed standards that will further modernize fuel economy between 2017 and 2025. In addition to saving oil, domestic biofuels will provide nearly 1 million barrels of fuel per day in 2012, according to the EIA.

Investments in buses, subways, and trains can also reduce our dependence on oil and create jobs. Public transpor-tation saves 4.2 billion gallons of gasoline annually. Every $1 billion of investment in public transportation sup-ports 36,000 jobs.

#### LINK: In SQ the shift to alternative energy is unlikely because of a lack of financial incentives, only the AFF plan shocks the oil market by shifting US to alternative energy forms.

Weiss 12, Daniel J., May 31,-Center for American Progress Action Fund, Capitol Hill Hearing Testimony, (Administration Energy Policies; Committee: House Oversight and Government Reform) ejj.

Despite Big Oil's trillions of dollars of earnings, and billions of dollars of tax breaks dating back 100 years, some Big Oil allies claim that these companies need these tax breaks. Meanwhile, important incentives to invest in clean, emerg-ing renewable technologies are under attack. For example, the production tax credit for wind energy will expire at the end of this year. Its demise threatens 37,000 jobs. In addition, it would surrender the growing market for clean tech to our economic competitors. It is important to note that Big Oil and nuclear energy have received vastly more federal assistance than wind, solar, and other renewable energy sources.

### Link: Pipelines

**Investments in pipelines increase domestic output of crude oil.**

**Hatfield, July 14, 2012**

(Kevin Hatfield Senior Director, Gathering Systems Enbridge Pipeline Committee on House Oversight and Government Reform “Americas energy future” CQ Transcripts))

Mr. Chairman and members of the Committee, thank you for this opportunity to appear before you and to offer Enbridge's views on the growing domestic **oil** supplies, such as those in western North Dakota, and the challenges in getting these new resources to market. As you may know, Enbridge is a leader in energy delivery throughout the U.S. and Canada. As part of its crude **oil** delivery system Enbridge operates the longest crude **oil** pipeline system in the world. **That system provides more than 2.5 million barrels per day (bpd) of crude oil to the major refinery markets located throughout the United States** especially the upper Mid-West region to Cushing, Oklahoma - America's heartland. With the recent acquisition of the Seaway Crude Pipeline System, along with partner Enterprise Products, the system now spans from northern Alberta to the western Gulf Coast refinery hub. Enbridge operates natural gas pipeline systems in the Gulf of Mexico, in shale gas plays in Texas and Oklahoma and as a partner in the Alliance Pipeline system seeks to expand gathering opportunities in the Bakken. As a distributor of energy, Enbridge owns and operates Canada's largest natural gas distribution company, and provides distribution services in Ontario, Quebec, New Brunswick and New York State. As a generator of energy, Enbridge has interests in almost 1,000 megawatts of renewable and alternative energy generating capacity and is expanding its interests in wind and solar energy, electric transmission, geothermal and hybrid fuel cells. Enbridge employs approximately 7,000 people, including more than 2,500 people in the U.S. For more than sixty years, Enbridge has transported and delivered energy throughout North America, safely and reliably. **Our job is to connect oil and gas supply with demand, and we do that through a network of pipelines and other transportation facilities**. Over the next three years, Enbridge plans to invest another $11.8 billion in our energy generation, and **transportation infrastructure**, including $6.6 billion in the United States. These investments follow an equally impressive investment in over 1,500 miles of new pipelines along our Mainline System over the last five years. These opportunities would not be possible if not for the energy renaissance occurring in North America - including the Bakken here in North Dakota. Here in North Dakota, Enbridge is celebrating its 50th Anniversary as a pipeline company through our acquisition of the Portal Pipeline Company. In 2005, the capacity of our North Dakota system, which extends into eastern Montana, was 80,000 bpd - quite inadequate for Bakken producer demand at that time. Enbridge has worked hard to catch up to the capacity demands since that time. After numerous capacity **expansions Enbridge has increased capacity from that initial 80,000 bpd to 275,000 bpd today**. In early 2013, Enbridge's pipeline capacity from North Dakota will exceed 355,000 bpd. This represents a four-fold increase in pipeline capacity during the past seven years. However, pipeline projects, by their nature, are time intensive involving land acquisition, permitting and construction. Additional capacity is needed to meet producer demand in the interim, and so Enbridge has included rail transportation as part of its energy delivery portfolio to meet the additional demand capacity. **Enbridge delivers crude oil via pipeline to third party rail facilities today,** and in early 2013, will supply its own pipeline customers with Bakken crude rail exports through a new Enbridge rail terminal that will be jointly operated with the farmers of Berthold, North Dakota. This current example of close integration with the local community to safely and responsibly develop our projects is merely a reflection of the way Enbridge does things not only in North Dakota but throughout North America. It reflects Enbridge's concern for the needs of our customers and those actively developing the Bakken resource by providing economical pipeline or rail "optionality" along with pipeline access to markets throughout the Great Lakes region, the Midcontinent, eastern Canada, the US East Coast, and the US Gulf Coast. **Once Berthold Rail reaches full capacity in** early **2013, Enbridge's total rail export capacity will exceed 120,000 bpd, bringing our total export capacity** for Bakken crude from North Dakota **to more than 475,000 bpd**. Our Bakken Pipeline Expansion Project ("BPEP") currently under construction reverses a cross-border pipeline so Bakken supplies can connect with the Canadian portion of our mainline system and, thus, reach most of the Mid-Continent's refineries, adding another 145,000 bpd. Our next major pipeline expansion, the Sandpiper Expansion project, will be a new line constructed adjacent to our existing pipeline in North Dakota, and will add another 225,000 to 325,000 bpd in capacity at an estimated cost in excess of $2 billion. The target is for Sandpiper to be in service late 2014-2015. In addition to broad support in North Dakota, Enbridge will need to work with existing shippers on our Enbridge Mainline System downstream of Clearbrook to develop expanded pipeline capacity from Clearbrook into Superior, Wisconsin, the Chicago area and beyond. Specifically, as export capacity from North Dakota increased, the need for additional pipeline capacity downstream of Clearbrook, across the United States and to new markets became evident. In 2008, Enbridge's Spearhead Pipeline project provided Bakken crude with its first access into Cushing, Oklahoma. In 2011, Enbridge acquired the Seaway Crude Pipeline System, and in May 2012, reversed the Seaway Pipeline to provide Bakken crude with its first pipeline access from Cushing to US Gulf refinery markets. Enbridge's has announced additional expansion projects along these Spearhead and Seaway corridors that are under construction today. Also, Enbridge has announced pipeline expansions of its Great Lakes pipeline systems that include a new pipeline into Toledo, Ohio and the reversal of Line 9 into Montreal to provide access to refineries in eastern Canada. There also is a need for Bakken light crude in the Eastern seaboard area - particularly in the Philadelphia refinery markets. Enbridge is in the early stages of providing rail import capacity to these area refineries as an interim solution. It is likely that these rail imports may materialize into a pipeline into the area. As I have stated earlier, pipelines provide the safest and most reliable means of transporting crude oil from the wellhead to the refinery markets. However, with opportunities to grow our infrastructure come challenges to build it. The biggest challenges include: Commercial certainty Regulatory timelines and approvals PublicScrutiny and acceptance Commercial certainty: Our discussions with shippers are aimed at developing the right- sized, right-priced, and right-timed expansion for take-away capacity into the future to connect to the right refineries in America. Whether the market supports Enbridge's solution or others, one way or another we must address the need for capacity south of Clearbrook to link to refineries hungry for Bakken sweet crude supply. **We must keep in mind that as a common carrier, we are obliged to provide service to all that can meet and fund our standards for delivery without discrimination**. Our biggest challenge is the ability to extend beyond northern Minnesota to tap refinery markets in the Midcontinent and throughout the United States. To connect to refineries, Enbridge needs to complete expansions on our mainline system east of Clearbrook, MN. **This link is critical** to ensure Bakken crude will have access to refineries already connected to the Enbridge system in the Chicago, Detroit, Toledo and eastern Canada and areas, as well as access to refineries along the gulf coast, home of more than 50 percent of America's refinery capacity. Part of that puzzle is now complete with the recent reversal of the Seaway Pipeline System and planned doubling of its capacity by mid-2014. Enbridge is now working with shippers to determine the best short term transportation solutions to extend to the East Coast and New England, including added capacity east of our current Michigan or Ohio destinations to extend as far as Pennsylvania and New Jersey - - home of refineries who are eager to tap Bakken supply and reduce their reliance on waterborne imports. While it may seem that meeting our customer's needs should come easily, our customers - producers, marketers and refiners - sometimes compete, so designing a system expansion that can be agreed to by all interests can be challenging. Regulatory Timelines and Approvals: Interstate crude **oil** pipeline projects cross multiple state jurisdictions. Each state has its own regulatory regime and timelines. To give some perspective of a project timeline I would like to cite an example from one of our most recently completed large-scale projects. The Southern Access project involved building a 42 inch pipeline from Superior, Wisconsin to Flanagan, Illinois, mostly in existing pipeline corridor. The first permit application was filed in June 2006, the last permit approval was received in April 2008, and the project was completed and in service in March 2009 - about 34 months. Inconsistent regulations and procedures of states in interstate type projects require companies to conservatively plan for longer lead times and can lead to economic uncertainty for a project. However, our goal of North American energy **independence** can only be realized with the support of federal and state governments in ensuring that regulatory processes are predicable, manageable and balance the impacts of such long projects with the undeniable benefits to the United States. If we Americans are able to reduce our dependence on imports from countries often unstable or less friendly to our interests, both our economy and our national interests are improved**.** Public Scrutiny and Acceptance Developing production areas such as the Bakken have brought much economic benefit. This activity has also brought many challenges to the communities impacted such as infrastructure needs, housing and highway safety to name a few. To address these concerns Enbridge has greatly enhanced its resources in: public outreach and education, open houses to describe current operations and proposed projects, outreach, education, coordination and support with our local EMS units, public awareness programs and community investment. A direct result of our pipeline projects in North Dakota is reduced stress on the local roadways. As an example, Enbridge is expanding the western portion of its system by adding new facilities and pipeline or upgrading existing facilities that have the maximum design capacity to save approximately 143,000 truck miles per day. Hopefully, you can agree that Enbridge's commitment to the communities where we live, work and raise our families is as strong as our long history of providing safe and reliable pipeline transportation not only in North Dakota, but across North America, and that our commitment to continue to meet the challenge to pro-actively provide additional capacity to more markets is as solid as our past. Again, thank you Mr. Chairman for this opportunity to testify before the Committee. I would be happy to answer any questions related to my testimony.

### Link: Rail

**Railroads/HSR reduces oil consumption and oil dependency and congestion**

Longman 09 (Phillip Longman is a senior fellow at the New America Foundation, “Back on tracks”

<http://www.washingtonmonthly.com/features/2009/0901.longman.html>)

S ix days before Thanksgiving, a truck driver heading south on Interstate 81 through Shenandoah County, Virginia, ploughed his tractor trailer into a knot of cars that had slowed on the rain-slicked highway. The collision killed an eighty-year-old woman and her one- and four-year-old grandchildren, and brought traffic to a standstill along a ten-mile stretch of road for the better part of the afternoon. It was a tragedy, but not an unusual one. Semis account for roughly one out of every four vehicles that travel through Virginia on I-81’s four lanes, the highest percentage of any interstate in the country. They’re there for a reason: I-81 traces a mostly rural route all the way from the Canadian border to Tennessee, and the cities in its path—Syracuse, Scranton, Harrisburg, Hagerstown, and Roanoke among them—are midsized and slow growing. This makes the highway a tempting alternative to I-95, the interstate that connects the eastern seaboard’s major metropolises, which is so beset with tolls and congestion that truckers will drive hundreds of extra miles to avoid it. This is bad news for just about everyone. Even truckers have to deal with an increasingly overcrowded, dangerous I-81, and for motorists it’s a white-knuckle terror. Because much of the road is hilly, they find themselves repeatedly having to pass slow-moving trucks going uphill, only to see them looming large in the rearview mirror on the down grade. For years, state transportation officials have watched I-81 get pounded to pieces by tractor trailers, which are responsible for almost all non-weather-related highway wear and tear. To make matters worse, traffic is projected to rise by 67 percent in just the next ten years. The conventional response to this problem would be simply to build more lanes. That’s what highway departments do. But at a cost of $11 billion, or $32 million per mile, Virginia cannot afford to do that without installing tolls, which might have to be set as high as 17 cents per mile for automobiles. When Virginia’s Department of Transportation proposed doing this early last year, truckers and ordinary Virginians alike set off a firestorm of protest. At the same time, just making I-81 wider without adding tolls would make its truck traffic problems worse, as still more trucks diverted from I-95 and other routes. Looking for a way out of this dilemma, Virginia transportation officials have settled on an innovative solution: use state money to get freight off the highway and onto rails. As it happens, running parallel to I-81 through the Shenandoah Valley and across the Piedmont are two mostly single-track rail lines belonging to the Norfolk Southern Railroad. Known as the Crescent Corridor, these lines have seen a resurgence of trains carrying containers, just like most of the trucks on I-81 do. The problem is that the track needs upgrading and there are various choke points, so the Norfolk Southern cannot run trains fast enough to be time competitive with most of the trucks hurtling down I-81. Even before the recent financial meltdown, the railroad couldn’t generate enough interest from Wall Street investors to improve the line. The railroad has long been reluctant to accept government investment in its infrastructure out of fear of public meddling, such as being compelled to run money-losing passenger trains. But now, like most of the industry, it has changed its mind, and it happily accepted Virginia’s offer last year to fund a small portion—$40 million—of the investment needed to get more freight traffic off I-81 and onto the Crescent Corridor. The railroad estimates that with an additional $2 billion in infrastructure investment, it could divert a million trucks off the road, which is currently carrying just under five million. State officials are thinking even bigger: a study sponsored by the Virginia DOT finds that a cumulative investment over ten to twelve years of less than $8 billion would divert 30 percent of the growing truck traffic on I-81 to rail. That would be far more bang for the state’s buck than the $11 billion it would take to add more lanes to the highway, especially since it would bring many other public benefits, from reduced highway accidents and lower repair costs to enormous improvements in fuel efficiency and pollution reduction. Today, a single train can move as many containers as 280 trucks while using one-third as much energy—and that’s before any improvements to rail infrastructure. For now, Virginia lacks the resources to build its "steel wheel interstate," but that could change quickly. Thanks to the collapsing economy, a powerful new consensus has developed in Washington behind a once-in-a-generation investment in infrastructure. The incoming administration is talking of spending as much as $1 trillion to jump-start growth and make up for past neglect, an outlay that Obama himself characterizes as "the single largest new investment in our national infrastructure since the creation of the federal highway system in the 1950s." We’ll soon be moving earth again like it’s 1959. By all rights, America’s dilapidated rail lines ought to be a prime candidate for some of that spending. All over the country there are opportunities like the I-81/Crescent Corridor deal, in which relatively modest amounts of capital could unclog massive traffic bottlenecks, revving up the economy while saving energy and lives. Many of these projects have already begun, like Virginia’s, or are sitting on planners’ shelves and could be up and running quickly. And if we’re willing to think bigger and more long term—and we should be—the potential of a twenty-first-century rail system is truly astonishing. In a study recently presented to the National Academy of Engineering, the Millennium Institute, a nonprofit known for its expertise in energy and environmental modeling, calculated the likely benefits of an expenditure of $250 billion to $500 billion on improved rail infrastructure. It found that such an investment would get 83 percent of all long-haul trucks off the nation’s highways by 2030, while also delivering ample capacity for high-speed passenger rail. **If high-traffic rail lines were also electrified and powered in part by renewable energy sources, that investment would reduce the nation’s carbon emission by 39 percent and oil consumption by 15 percent.** By moderating the growing cost of logistics, it would also leave the nation’s economy 10 percent larger by 2030 than it would otherwise be.\* Yet despite this astounding potential, virtually no one in Washington is talking about investing any of that $1 trillion in freight rail capacity. Instead, almost all the talk out of the Obama camp and Congress has been about spending for roads and highway bridges, projects made necessary in large measure by America’s overreliance on pavement-smashing, traffic-snarling, fossil-fuel-guzzling trucks for the bulk of its domestic freight transport.

### Link: Transit Competition

**Transportation competition lowers oil demand.**

**Metro-magazine** November 23, 20**10** (<http://www.metro-magazine.com/news/story/2010/11/Study-Transportation-options-could-reduce-oil-dependency.aspx> “Study: Transportation options could reduce oil dependency” accessed July 26, 2012)

**By increasing competition among transportation modes, making transportation pricing transparent, and tying transportation spending to energy and economic performance,** America could cut oil demand by as much as 779 million barrels a year by 2030, according to a new analysis released by the Mobility Choice Coalition. At a time when **national transportation infrastructure policy is up for revision and improvement,** the 19-member coalition also believes policy makers must take a fresh look at transportation. The analysis "Taking the Wheel: **Achieving a Competitive Transportation Sector** Through Mobility Choice," details the benefits of 10 specific policy options that would level the playing field among transportation options. If all were adopted, **U.S. oil demand would fall by as much as 462 million barrels of oil per year by 2020 and 779 million barrels a year by 2030.**

### Link: Transportation Infrastructure

#### Link: To build or even just modernize transportation infrastructure uses substantial amounts of energy and affects the world’s energy market.

Rodrigue 09, Jean-Paul Rodrigue- Department of Economics & Geography at Hofstra

University since 1999 (THE GEOGRAPHY OF TRANSPORT SYSTEMS- SECOND EDITION), 2009, <http://people.hofstra.edu/geotrans/eng/ch8en/conc8en/ch8c2en.html> ejj.

Infrastructure construction and maintenance. The building of roads, railways, bridges, tunnels, terminals, ports and airports and the provision of lighting and signaling equipment require a substantial amount or energy. They have a direct relationship with vehicle operations since extensive networks are associated with large amounts of traffic.

Administration of transport business. The expenses involved in planning, developing and managing transport infrastructures and operations involves time, capital and skill that must be included in the total energy consumed by the transport sector. This is particularly the case for public transit.

Energy production and trade. The processes of exploring, extracting, refining and distributing fuels or generating and transmitting energy also require power sources. The transformation of 100 units of primary energy in the form of crude oil produces only 85 units of energy in the form of gasoline. Any changes in transport energy demands influence the pattern and flows of the world’s energy markets.

# Impacts

## Saudi Impacts

## Relations

### Uniqueness: US-Saudi Relations High

#### Saudi Relies on US to provide funding for 2013 budget

Blanchard 7-19-12 (Christopher M., Specialist in Middle Eastern Affairs, Saudi Arabia: Background and U.S. Relations, Congressional Research Service)

The Obama Administration is seeking $10,000 in International Military Education and Training assistance funding for Saudi Arabia in its FY2013 budget request. This nominal amount makes Saudi Arabia eligible for a substantial but undisclosed discount3 on the millions of dollars of training it purchases through the Foreign Military Sales program. The Administration argues that the discount supports continued Saudi participation in U.S. training programs and this participation supports the maintenance of important military-to-military relationships and improves Saudi defense capabilities. In recent years, Congress has enacted prohibitions on IMET and other foreign assistance to Saudi Arabia, and the Bush and Obama Administrations subsequently issued national security waivers enabling the assistance to continue. Saudi officials have been privately critical of the congressional prohibitions and prefer to avoid contentious public debate over U.S. foreign assistance, arms sales, and security cooperation.

#### US-Saudi trade binds relations

Blanchard 7-19-12 (Christopher M., Specialist in Middle Eastern Affairs, Saudi Arabia: Background and U.S. Relations, Congressional Research Service)

Saudi Arabia remained the largest U.S. trading partner in the Middle East in 2011. According to the U.S. International Trade Administration, Saudi exports to the United States were $47.5 billion (up from $31.4 billion in 2010 but below the 2008 figure of $54.8 billion) and U.S. exports to Saudi Arabia are estimated at $13.8 billion (up from $11.6 billion in 2010). Comparable 2011 figures for Israel, the second-largest U.S. trading partner in the Middle East, were more than $23 billion in exports to the United States and $13.9 billion in imports from the United States. To a considerable extent, the high value of U.S.-Saudi trade is dictated by U.S. imports of hydrocarbons from Saudi Arabia and U.S. exports of weapons, machinery, and vehicles to Saudi Arabia. Fluctuations in the volume and value of U.S.-Saudi oil trade account for declines in the value of Saudi exports to the United States in recent years.

#### Saudi-Arabia and US can try harder to strengthen relations

Hanania 7-21 (Ray, Arab-American Palestinian Christian journalist, Arabs must win American hearts and minds, http://www.saudigazette.com.sa/index.cfm?method=home.regcon&contentid=20120722130710

Most Arabs do not understand that their future is directly tied to the public whims of the United States. If America sees you as an ally – usually through need (oil and military support in the region), America will help you. If America sees you as a threat, it will try to destroy you, or at the least make your life miserable.¶ And what does Saudi Arabia get for its support of America? In truth, Americans, overall, have a negative view of the Saudi people and government. Saudi Arabia is constantly vilified in the mainstream American news media, on television, in movies and in American literature. It’s really a strange relationship. But while Americans are hypocrites and two-faced about Saudi Arabia, the Kingdom is genuine in wanting to support the US.¶ Yet Saudi Arabia could do far more. It could help change how Americans view the Arab world. Through a sophisticated and strategic communications campaign, the Kingdom could target US congressional districts where notorious Arab-haters pillory Arab rights and justice for the Palestinians and promote anti-Muslim stereotypes and hatred.¶ The Arab world has few real friends in the United States, and even fewer in the US Congress where peace and justice in the Middle East are regular casualties of the powerful and well-financed pro-Israel movement. Congress is the Arab world’s number one enemy.¶ Instead of trying to influence American politics through the anti-Arab Congress, the Arab world should take its case directly to the American people, something they have never done effectively. The truth is it is easier to influence the public through strategic communications, messaging, media and public relations, all the mechanics of success that the Arab world has failed to use effectively.¶ The Arab world is just bad at communications. They have justice on their side but they can’t seem to connect the dots with the American public. The old saying when I was a child in the 1960s remains true today: Israel has a lousy case, but great lawyers. The Arabs have a great case, but lousy lawyers. With lawyers being our representatives and spokespersons.¶ America is actively leading conflict in the Middle East targeting countries it opposes and balancing its interests against what it dislikes in other Arab countries. But eventually, when the oil dries up, American foreign policy will change and become more aggressive and more negative toward the Arab countries that it “tolerates” today. The Arabs shouldn’t wait for that to occur. They shouldn’t sit back and hope that things will improve, nor should they continue with current policies that pander to American energy excesses.

### A2: Relations resilient

#### Washington has already alienated Riyadh - the next break will be the last

GUZANSKY, 11 (Yoel, research fellow at the Institute for National Security Studies, "Tehran tests Saudi's nerve on nuclear weapons," The Australian 7/1, http://www.theaustralian.com.au/news/world/tehran-tests-saudis-nerve-on-nuclear-weapons/story-e6frg6ux-1226085108555)

UNTIL recently it appeared that US security guarantees would be a preferred alternative to Riyadh's pursuit of a nuclear option. However, the combination of Iran's steady nuclear progress and Riyadh's growing frustration with Washington's "Arab Spring" policies threaten to drive the Saudis in precisely this direction. As a leading Arab state and as Iran's ideological-religious rival and main competitor for regional influence, Saudi Arabia will find it difficult to sit quietly should Iran obtain military nuclear capability. The same week that the UN nuclear watchdog raised new concerns of "undisclosed nuclear-related activities in Iran" it was reported that Saudi Arabia was to build 16 nuclear reactors at a cost of more than $US300 billion.

#### Even if long term relations remain - short term disagreements matter more - Arab Spring provided the opening

AP 11 (published in USA TODAY, 8/13, "Mideast upheavals open doors for Saudi Strategies," http://www.usatoday.com/news/world/2011-08-13-saudi-arabia-middle-east-strategy\_n.htm)

But that doesn't come without some potential complications for OPEC's No. 1 producer. Stronger Saudi policies open the risks of friction with Washington, which is Saudi Arabia's main arms supplier and had counted on Saudi support to push U.S. interests in the Arab world. There is virtually no chance of a serious rift, and U.S. and Saudi officials are on the same page on other pivotal showdowns, such as efforts to get Yemen's President Ali Abdullah Saleh to step down after months of protest and bloodshed. Saleh is recovering in Saudi Arabia after being badly injured in a June attack on his palace compound. But even small rough patches between the U.S. and Saudi Arabia take on heightened significance in the tense Mideast climate. The Saudi statement on Syria followed White House urging for the Saudis and their Arab allies to take a sharper stance on Assad's government. Days later, the U.S. imposed new sanctions on Syria, and presidential spokesman Jay Carney said Thursday that Syria "would be a much better place" without Assad in charge. In March, Secretary of State Hillary Rodham Clinton said Bahrain was on the "wrong track" to allow Saudi-led forces to help crush protests in the island kingdom — which is home to the Pentagon's main military force in the region, the U.S. Navy's 5th Fleet. Rights groups also have called on U.S. officials to take a sharper stance against Saudi Arabia's crackdowns on internal dissent, including a proposed law that Amnesty International said would allow authorities to prosecute peaceful protests as a terrorist act. In Iraq, Saudi officials are deeply wary of the U.S.-backed government of Prime Minister Nouri al-Maliki, a Shiite who owes his power to Iranian-allied political groups. Meanwhile, a higher regional profile invites uncomfortable scrutiny about Saudi royal succession with both King Abdullah and Crown Prince Sultan in their mid-80s and undergoing medical treatment this year. Christopher Boucek, who follows Mideast security issues at the Carnegie Endowment for International Peace, believes Saudi leaders view U.S. policymakers as more preoccupied with "being on the right side of history instead of standing by its friends." "Increasingly, it seems that Saudi Arabia looks out into the world and thinks that its foreign policy interests do not overlap with the United States and Washington's security interests," Boucek said. "Saudi Arabia is now in a position to pursue its own interests."

### Internal Link: Decreased demand hurts relations

#### Saudi Arabia is already skiddish about decreasing consumption – the plan will immediately trigger the impact

MOUAWAD, 09 (Jad, staff writer, "Saudi Blasts American Energy Policy," NYT blog, Aug 25, http://green.blogs.nytimes.com/2009/08/25/saudi-blasts-american-energy-policy/)

The question of American “energy independence” clearly rankles officials in Saudi Arabia, the world’s biggest exporter of crude oil, who seem increasingly puzzled by the energy policy of the United States, the world’s biggest oil consumer. In a short and strongly-worded essay in Foreign Policy magazine, Prince Turki al-Faisal, a former ambassador to the United States and a nephew to King Abdullah, said that for American politicians, invoking energy independence “is now as essential as baby-kissing,” and accuses them of “demagoguery.” All the talk about energy independence, Mr. al-Faisal said, is “political posturing at its worst — a concept that is unrealistic, misguided, and ultimately harmful to energy-producing and consuming countries alike.”

#### The plan is perceived as a violation of the security of demand - they already fear new oil developments in the US

IJTEHADI, international journalist specializing in global markets, 11 (Yadullah, "Saudi Arabia's Other Major Crisis," July 31, http://www.businessinsider.com/saudi-arabias-other-major-crisis-2011-7)

The Kingdom has often asked for 'security of demand' from oil consuming countries, suggesting that if they want a stability in supply and prices, then they also need some kind of guarantees that new oil production will find ready buyers. Saudi Arabia is acutely conscious that new technological developments in shale gas and the arrival of new discoveries and players in the market could erode its expensive and expansive energy infrastructure. The IEA expects that a jump in new output of unconventional gas (shale gas plus tight gas and coal-bed methane) will result in global gas demand exceeding that for coal by 2025 and approaching oil by 2035. Certainly, Saudi Arabia sees this as a worrying development, given that 85% of its budget is funded by oil revenues.

#### High prices keep OPEC competitive - US demand keeps relations stable – Any decrease will put both at risk.

Bond 2012 (Steven, staff writer, "Saudi oil production to stay high on US demand, Iran sanctions" AME http://www.ameinfo.com/293804.html)

Last week oil prices rose 2% on continued disputes over Iran's nuclear program and a weaker dollar, and while Saudi Arabia still maintain a flexibility in their capacity, the US has more oil imports on order as of July. This is revenue for the kingdom but has wider implications, explains Dunkley: "On the one hand, you have the United States, an ally, asking for increased supply to make up for lost Iranian barrels. This is the second time in two years the United States has asked the Saudis to boost supply. Of course the argument here is if the price rises further, it will cause a snapback to global recession which will hurt everybody." "One added dimension of the global picture is Opec as a cartel is facing what could be the beginning of an existential threat from North American tight oil production. There is a chorus of voices who believe that within the next five to ten years, Opec imports won't even flow to the U.S Gulf Coast." The ramifications for Saudi Arabia are serious and also for what Opec calls 'security of demand'. Dunkley's view is that the kingdom has every incentive to keep oil prices high now, with the distinct possibility that shale oil could come on the scene and cause prices to be slashed. However unclear the situation is, Opec needs to 'start preparing for more non-Opec competition."

#### Saudi Arabia perceives policies aimed at decreasing a demand as a threat

MOUAWAD, 09 (Jad, staff writer, "Saudi Blasts American Energy Policy," NYT blog, Aug 25, http://green.blogs.nytimes.com/2009/08/25/saudi-blasts-american-energy-policy/)

The Saudis have genuine reasons to fear the effects of the Obama administration’s energy policy and its commitment to reducing oil consumption, as well as efforts to reduce carbon emissions. As Prince Turki points out himself, Saudi Arabia holds 25 percent of the world’s known oil reserves and would like to keep selling oil for several more decades. As such, the Saudis know that any attempt to reduce gasoline consumption is a threat to the future of the Saudi economy. It’s an old refrain: in his most famous remark, the former Saudi oil minister, Sheik Yamani, once said that the stone age didn’t end because the world ran out of stones, and the oil age will not end because the world runs out of oil. It will end when something replaces it.

#### Plan effects above-ground conditions: Saudi Arabia will make decisions based on the perception of demand

Kate et. al. 9 (Warner, analyst at IEA, "Turmoil in the International Oil Markets: Getting Used to production capacity constraints," Challenges in a Changing World, 191)

This fundamental upward shift is due to a combination of so-called ‘underground’ and ‘above ground’ conditions. The ‘underground’ problems include the size, depth and geological complexities of new oil fields that are driving up the cost per barrel. These complex oil fields need to be taken into production, since ‘above ground’ problems limit International Oil Companies’ (IOCs) ability to access the lower-cost oil in producing countries. The ‘above ground’ problems slow the pace of development of medium-cost oil in the largest producing countries in the Middle East and Russia. Despite the expectation of a continued demand for oil, oil exporting countries are concerned about the security of demand, and adapt their development plans accordingly.

Confidence is key - insecurity of demand will cause massive shift in production policies

Kate et. al. 9 (Warner, analyst at IEA, "Turmoil in the International Oil Markets: Getting Used to production capacity constraints," Challenges in a Changing World, 207-8

Any serious attempt by the developed economies and other net oil consumers around the world to mitigate these risks will be futile unless spare capacity is created to make the world oil market more resilient to short-term disruptions. The available medium-cost oil needs to be unlocked and made available for the international market. To achieve this, the oil producing countries’ claim for security of demand will need to be addressed. In addition, the expansion of oil production capacity can only be realized by increasing high-cost oil production, but this would also require the confidence that the oil price stays above the inflated cost levels. Of course the current crisis in the international capital markets could cause the global economy to slow down, thereby reducing the immediate pressure on oil supplies. When the resource-holding states and their NOCs look at the current slowdown of the world economy their reluctance to invest might increase. All we can hope for is that the recession can buy us time to prevent an oil crunch and that this time will be wisely used.

#### Security of demand is key to US-Saudi relations

MOHAMEDI 10 (Fareed, chief economist for PFC energy, "The future of black gold," http://www.majalla.com/eng/2010/01/article5514608)

The Saudis say “look, we have invested ‘X’ billions of dollars in upstream production and we’ll provide 12 million to 13 million barrels per day. We need the money for inter-generational distribution – that means saving it – or inter-sector distribution, which means economic diversification. We can’t give more than that. Maybe we’ll consider 15 million barrels a day as capacity but right now we don’t want to go over 13 million. And look at what’s happened in the market. You say you have insecurity of supply, we have insecurity of demand. We put in all this surplus capacity in and last year we had to cut production by a million barrels a day. And we’re maintaining it for you. There is also climate change and alternative sources of fuel to consider. We have given, so don’t ask us for more.”

### Saudi Prolif

#### Relations key to stop Saudi prolif

BORGER 11 (Julian, diplomatic editor, "A Saudi Bomb?" The Guardian, http://www.guardian.co.uk/world/2011/jun/29/saudi-arabia-prince-turki-arab-spring-iran/print)

As for its own weapon, Saudi Arabia has declared it will spend $300bn on 16 nuclear reactors, for which it is about to open bids. But they would be turnkey projects with safeguards making it almost impossible to use the fuel to make weapons. Building a Saudi bomb would require starting a uranium enrichment programme from scratch. Even with unlimited resources that would take years.¶ In the short term, Saudi Arabia could look to other states. Since the Arab spring, the monarchy has become disillusioned with Washington's capacity to defend it. Instead, it may see its best option for a rapid response (to an Iran nuclear test, for example) as Pakistan. Saudi Arabia is reported to have an "option" on Pakistan's nuclear capability, in return for financing Pakistan for decades. And the US would find it hard to stop such destabilising nuclear co-operation. Its influence with both the Pakistanis and the Saudis has frayed considerably.

#### Saudi on the brink of weapons acquisition - collapse of relations will spark arms race

NYT, 11 ("Prince Hints Saudi Arabia May Join Nuclear Arms Race,"12/6, http://www.nytimes.com/2011/12/07/world/middleeast/saudi-arabia-may-seek-nuclear-weapons-prince-says.html

A Saudi prince, in a remark designed to send chills through the Obama administration and its allies, suggested that the kingdom might consider producing nuclear weapons if it found itself between atomic arsenals in Iran and Israel. The prince, Turki al-Faisal, who has served as the Saudi intelligence chief and as ambassador to the United States, made the comment on Monday at a Persian Gulf security forum in Riyadh, Saudi Arabia. The remark confirmed Western fears about the potential for an arms race in the Middle East if Iran moves to produce a nuclear weapon. But it also reflected the hardening views among the Persian Gulf’s Arab states that they must rely on themselves — and not just on Western protection — as tensions with Iran grow worse.

#### Saudi acquisition cascades - engulfs the region in war

Bowman 8 (Bradley, Senate Council on Foreign Relations, "Chain Reaction: Avoiding a Nuclear Arms Race in the Middle East" http://www.gpo.gov/fdsys/pkg/CPRT-110SPRT39674/html/CPRT-110SPRT39674.htm)

Of any Middle Eastern state, Saudi Arabia is the state most likely to pursue nuclear weapons in response to the development of an Iranian nuclear weapon. While acknowledging the difficulty inherent in accurately predicting the ramifications of a Saudi nuclear weapon, one can envision a host of likely or possible outcomes that would dramatically undermine peace and stability in the Middle East and severely endanger U.S. interests and security. At some point in the Saudi process of developing or acquiring a nuclear weapon capability, Israel would likely detect the Saudi nuclear activity. Israel might strike a small number of Saudi targets in order to eliminate the program in its infancy. Even if the Saudis could obtain a nuclear weapon without Israeli knowledge, it is difficult to imagine a passive Israeli acceptance of a Saudi nuclear weapon, which the Israelis would likely view as an existential threat. If the Israeli response to a Saudi nuclear weapons program took the form of a military attack it would be seen in the Arab World in the context of an attack from the Jewish state against the Islamic holy land and home of the ``two holy mosques.'' Such an Israeli attack on Saudi Arabia would represent one of the greatest offenses to Muslims in history and would incite an unprecedented level of radicalization directed against Israel and the United States, possibly resulting in a regionwide conflict between Arab States and Israel. A Saudi nuclear weapon might also spur a regional nuclear arms race. Iran would likely respond by increasing the number of nuclear weapons in their arsenal, the accuracy of their delivery systems, and the variety of their launch platforms. If Israel took either of these steps--especially in an overt and explicit manner--it would place tremendous political pressure on Egypt to respond.\1\ The Egyptian response could consist of a renunciation of its peace treaty with Israel, a repudiation of its relations with the United States, or the initiation of an Egyptian nuclear weapons program. The Egyptian people would undoubtedly demand the government take some forceful and substantial action. This interaction between Israel and Egypt would also be exacerbated by the existence of a Saudi nuclear weapon.

#### Saudi Arabia is on the brink of proliferation - internal media reports prove

Jansson 12 (Mark, deputy director of the CSIS Project on Nuclear Issues, "Conceding the Saudi Nuclear Breakout' Feb 21, http://csis.org/blog/conceding-saudi-nuclear-breakout)

It is not just what is said to western media that matters, but also what is being communicated domestically. Norman Cigar at Marine Corps University has been following the Saudi op-ed pages and print media – semi-official news sources in his view. Recently at a conference in Quantico, Cigar gave a fairly troubling account of how these outlets have served to promulgate the logic of Saudi Arabia acquiring a nuclear weapon. The socialization of this idea to people in and around the country is something to be concerned about. For its part, the U.S. has sought to ameliorate Saudi security concerns through arms sales. From 20007-2010, the United States approved an estimated $13.8 billion in arms sales with Riyadh making Saudi Arabia one of the top three U.S. arms importers since 2003, according to a Congressional Research Service report. Following the deal, a government-to-government agreement signed December 24, 2011 authorized a $29.4 billion sale of 84 F-15SA combat aircraft – the largest of previous arms sales to the Royal Saudi Air Force. Part of a larger, 10-year $60 billion weapons package, the F-15 s and related technical assistance help improve Saudi Arabia defend itself, thus reducing its vulnerability to Iranian coercion. Despite all this, threats by Saudi Arabia to acquire a nuclear weapon in response to Iran persist. Should the idea of a nuclear-armed Saudi Arabia continue to evolve into a predominant narrative, a Saudi nuclear weapon could one day become an answer in search of a problem. Even if Iran ultimately does not acquire a nuclear weapon, all kinds of other rationalizations for a Saudi bomb could very well be articulated down the road: the country’s lack of strategic depth, enduring Iranian breakout capacity, the vulnerability of its critical infrastructure, lack of progress towards a WMD-free zone in the Middle East, lack of confidence in the U.S.’s commitment to its security and possibly concern about foreign intervention on behalf of citizens seeking a more democratic political system, or simply “uncertainty” about its future in a volatile region all come to mind as possible justifications.

#### Strong relations prevent Saudi Prolif

GUZANSKY 11 (Yoel, research fellow at the Institute for National Security Studies, "Saudi Arabia Nuclear Hedging," 12/13, p. http://www.acus.org/new\_atlanticist/saudi-arabia-nuclear-hedging)

Saudi Arabia understands that the United States is still the most effective protector of its national security, but should the United States put some distance between itself and the region, new players enter the arena, or a rift develop between the two nations, Saudi Arabia is most likely to alter its position. Saudi Arabia is the number one candidate for further proliferation in the Middle East. It has both the strategic motivation and financial capability to strive for the nuclear option. The option of purchasing a nuclear weapon would also to a large extent "immunize" the Kingdom against a preventive strike at its nuclear installations, simply because they would not exist.

#### Saudi prolif leads to nuclear war

London 10 (Herbert, professor emeritus of NYU, "The coming crisis in the Middle East," Hudson Institute, http://www.hudson.org/index.cfm?fuseaction=publication\_details&id=7101&pubType=HI\_Opeds)

For Sunni nations like Egypt and Saudi Arabia regional strategic vision is a combination of deal making to offset the Iranian Shia advantage and attempting to buy or develop nuclear weapons as a counter weight to Iranian ambition. However, both of these governments are in a precarious state. Should either fall, all bets are off in the Middle East neighborhood. It has long been said that the Sunni “tent” must stand on two legs, if one, falls, the tent collapses.   Should that tent collapse and should Iran take advantage of that calamity, it could incite a Sunni-Shia war. Or feeling its oats and no longer dissuaded by an escalation scenario with nuclear weapons in tow, war against Israel is a distinct possibility. However, implausible it may seem at the moment, the possible annihilation of Israel and the prospect of a second holocaust could lead to a nuclear exchange.

#### Middle Eastern proliferation leads to nuclear war

Cirincione 7 (Joseph, director of nuclear policy at the center of american progress, "Apocalypse When?" 11/12, http://www.nationalinterest.org/Article.aspx?id=15998)

Third is the risk of new nuclear nations. I agree with Mueller that the danger here is not that Iran or North Korea would use a nuclear bomb against America or their neighbors. Deterrence is alive and well; they know what would happen next. Nor is it that these states would intentionally give a weapon they worked so hard to make to a terrorist group they could not control. Rather it is the risk of what could happen in the neighborhood: a nuclear reaction chain where states feel they must match each other's nuclear capability. Just such a reaction is underway already in the Middle East, as over a dozen Muslim nations suddenly declared interest in starting nuclear-power programs. This is not about energy; it is a nuclear hedge against Iran. It could lead to a Middle East with not one nuclear-weapons state, Israel, but four or five. That is a recipe for nuclear war.

#### Saudi nuclear acquisition causes regional nuclear war - terminal impact is extinction

EDELMAN et al. 11 (Eric S., "The Dangers of a Nuclear Iran" Foreign Affairs, 90:1; p 71-2)

Were Saudi Arabia to acquire nuclear weapons, the Middle East would count three nuclear-armed states, and perhaps more before long. It is unclear how such an n-player competition would unfold because most analyses of nuclear deterrence are based on the U.S-Soviet rivalry during the Cold War. It seems likely, however, that the interaction among three or more nuclear-armed powers would be more prone to miscalculation and escalation than a bipolar competition. During the Cold War, the United States and the Soviet Union only needed to concern themselves with an attack from the other. Multi- polar systems are generally considered to be less stable than bipolar systems because coalitions can shift quickly, upsetting the balance of power and creating incentives for an attack. More important, emerging nuclear powers in the Middle East might not take the costly steps necessary to preserve regional stability and avoid a nuclear exchange. For nuclear-armed states, the bedrock of deterrence is the knowledge that each side has a secure second-strike capability, so that no state can launch an attack with the expectation that it can wipe out its opponents’ forces and avoid a devastating retaliation. However, emerging nuclear powers might not invest in expensive but survivable capabilities such as hardened missile silos or submarine- based nuclear forces. Given this likely vulnerability, the close proximity of states in the Middle East, and the very short flight times of ballistic missiles in the region, any new nuclear powers might be compelled to “launch on warning” of an attack or even, during a crisis, to use their nuclear forces preemptively. Their governments might also delegate launch authority to lower-level commanders, heightening the possibility of miscalculation and escalation. Moreover, if early warning systems were not integrated into robust command-and-control systems, the risk of an unauthorized or accidental launch would increase further still. And without sophisticated early warning systems, a nuclear attack might be unattributable or attributed incorrectly. That is, assuming that the leadership of a targeted state survived a first strike, it might not be able to accurately determine which nation was responsible. And this uncertainty, when combined with the pressure to respond quickly, would create a significant risk that it would retaliate against the wrong party, potentially triggering a regional nuclear war.

### Impact: Prolif- Pakistan

#### Decrease in US-Saudi relations will embolden relations with Pakistan. They will provide the nuclear tech

Global Security 11 ("Saudi Arabia Special Weapons" http://www.globalsecurity.org/wmd/world/saudi/)

Saudi Arabia is examining the prospect of raising the level of its strategic relations with Pakistan. The Saudis have accelerated talks with Islamabad for the purchase of Pakistani weapons as well as joint military and strategic prospects. Riyad also seeks to exploit Pakistani;'s expertise in missiles and weapons for mass destruction. Pakistan and Saudi Arabia have already developed an array of defense and military relations. But the discussion in Riyad to expand strategic ties reflect the kingdom's concern over its deteriorating relations with the United States.

### Impact: Miscalc and First Strike/ AT Prolif Good

#### A nuclear Middle East will result in extinction - either miscalc or first strike.

BAR 11 (Shmuel, Director of Studies at the Institute of Policy and Strategy in Herzliya, Israel, “Can Cold War Deterrence Apply to Nuclear Iran?” jcpa.org/text/cold\_war\_deterrence\_nuclear\_iran.pdf)

A nuclear Middle East will be very different from the Cold War in a wide range of aspects. True, we may safely assume that the leaders and peoples of the region have no desire to be the targets of nuclear weapons. However, the inherent instability of the region and its regimes, the difficulty in managing multilateral nuclear tensions, the weight of religious, emotional, and internal pressures, and the proclivity of many of the regimes in the region toward military adventurism and brinkmanship do not bode well for the future of this region once it enters the nuclear age. Nuclear war need not erupt as a result of a conscious decision by a leadership to use nuclear weapons. It is more likely to result from escalation scenarios, misinterpretation of intentions of the other side due to poor intelligence and lack of communication between antagonists, inadvertent use, poor command and control constraints, and underestimation of the other party’s response to nuclear brinkmanship. Such behavior in a polynuclear environment would be tantamount to lighting a match in a gas depot. The countries of the region will probably be more predisposed than the Cold War protagonists to brandish their nuclear weapons not only rhetorically but through nuclear alerts or nuclear tests in order to deter their enemies, leading to situations of multilateral nuclear escalation. Once one country has taken such measures, the other nuclear countries of the region would probably feel forced to adopt defensive measures, and multilateral escalation will result. However, such multilateral escalation will not be mitigated by Cold War-type hotlines and means of signaling, and none of the parties involved will have escalation dominance. This and the absence of a credible second- strike capability may well strengthen the tendency to opt for a first strike.

### 2nc AT: No risk of prolif

#### Saudi Arabia already has a nuclear infrastructure - Purchased weapons could go online instantly

Global Security 11 ("Saudi Arabia Special Weapons" http://www.globalsecurity.org/wmd/world/saudi/)

Saudi Arabia does not have weapons of mass destruction. It did, however, buy long range CSS-2 ballistic missiles from China in 1988. More recently, Saudi officials have discussed the procurement of new Pakistani intermediate-range missiles capable of carrying nuclear warheads. Some concern remains that Saudi Arabia, like its neighbors, may be seeking to acquire nuclear weapons, apparently by purchase rather than indigenous development. While there is no direct evidence that Saudi Arabia has chosen a nuclear option, the Saudis have in place a foundation for building a nuclear deterrent. Saudi Arabia first opened a nuclear research center in the desert military complex at Al-Suleiyel, near Al-Kharj, in 1975. Saudi Arabia reportedly offered to pay for reconstruction of the Osirak-reactor, destructed by israel on 06 June 1981. By at least 1985 Iraqi and Saudi military and nuclear experts were co-operating closely. Saudi nuclear scientists were sent to Baghdad for months of training.

### Saudi-Sino Connect (starring Meg Ryan and Tom Hanks)

### Internal Links

#### A weak Saudi regime would cause regional conflict and embolden China

DACREMA 11 (Eugenio, "Saudi Arabia and the Western nightmares," Equilibri, http://www.equilibri.net/nuovo/articolo/saudi-arabia-and-western-nightmares)

The second reason of concern for the western governments is political, and it is obviously deeply related to the first. It is impossible to understand which direction a crisis of the Saudi regime would take. There are several possible scenarios. Some would include prolonged internal clashes, probably on tribal-sectarian bases, with several leaders and elites competing for the power and endorsed by different international  blocs. In the long term such a situation could easily bring the country away from the US  influence in favor of some other emerging power such like China or Russia. Further, a weak Saudi Arabia would empower the regional position of Iran. This would shift the power balance in the region toward such an extremely adverse position for the United States (and the western countries in general), like it has never been before. It is easy, analyzing these facts, to understand why many observers defined a possible Saudi revolution as “Obama’s Nightmare”.

#### Deteriorating Saudi relations lead to Saudi-Chinese alliance.

Lippman, Middle East specialist and scholar at the Middle East Institute, 11 (Thomas, "Saudi Arabia's Nuclear Policy," http://www.susris.com/2011/08/05/saudi-arabia%E2%80%99s-nuclear-policy-lippman/)

With territory of more than 800,000 square miles, Saudi Arabia is a vast country, four times the size of France. Its capital, Riyadh, is in the center of the country, but otherwise its population centers and economic assets are concentrated along the Persian Gulf and Red Sea coasts. The oil installations that provide most of the country’s revenue and the desalination plants that produce 70% of its drinking water are visible, vulnerable targets that could be devastated in short order by air assault or seaborne attack. Despite Saudi Arabia’s large territory, it would be difficult for the population and the armed forces to retreat from the coasts and regroup in the interior because the interior is virtually uninhabitable; cut off the from the coasts, the Saudis would be without food or water. Military supply lines would be severed. Moreover, Western military analysts agree that despite its multi-billion dollar purchases of military equipment over the past 30 years, Saudi Arabia does not have armed forces capable of defending the country against a large-scale attack. So let us suppose that Saudi Arabia’s currently testy relationship with the United States deteriorated to the point where the Saudis no longer felt they could rely on Washington’s protection. If the Saudis could no longer assume that the armed forces of the United States are their ultimate weapon against external threats, might they not wish to acquire a different ultimate weapon? With that in mind, could not a reasonable case be made in the Saudis’ minds for the development of an alternative security relationship, and perhaps a nuclear agreement, with another major power should relations with the United States deteriorate? A possible candidate for such a role would of course be China, a nuclear power that has a close relationship with Saudi Arabia’s ally Pakistan and a growing need for imported oil. Sufficiently remote from the Gulf not to pose a direct threat to Saudi Arabia, and no longer part of any international communist movement, China could theoretically be an attractive partner. This is not to say that Saudi Arabia is actually seeking such a relationship with any country other the United States, or that China would undertake such a mission, but to be unaware of any such outreach is not to exclude it from the realm of possibility.

#### Saudi's will respond to rift in US relations by aligning with China

LUFT and KORIN 4 (Gal, exec director of IAGS & Anne, director of policy "The Sino-Saudi Connection," http://www.iags.org/sinosaudi.htm)

In the years since that early sale, Sino-Saudi relations have grown only closer, especially after the two countries established full diplomatic ties in 1990. As military cooperation has deepened, China has offered to sell the Saudis, among other things, modern, solid-fueled intercontinental ballistic missiles with a range of up to 3,500 miles. A regular series of high-level visits by Chinese leaders culminated in President Jiang Zemin's pronouncement of a "strategic oil partnership" between the two countries in 1999. Could China supplant the U.S. as a major Saudi ally? At the moment it hardly seems likely. China is still a modest force in the Middle East, while the U.S. maintains large numbers of troops and formidable amounts of equipment in bases throughout the region. But given the logic of its domestic needs, Beijing is almost certain to step up its diplomatic and military efforts. Making its path easier is the fact that this also happens to be a moment of deep tension in U.S.-Saudi relations.

#### Saudi- Chinese relations are already on the rise because of oil dependence, allowing Saudi Arabia to increase it’s exporting of oil to China would increase relations which risks loss of US influence; brink quickly approaching.

Salameh 10, Mamdouh G.- International Association for Energy Economics, First Quarter, (China’s Global Oil Diplomacy: Benign or Hostile?), [www.iaee.org/en/publications/newsletterdl.aspx?id=93](http://www.iaee.org/en/publications/newsletterdl.aspx?id=93) ejj.

For decades the doctrine of peaceful rise has meant that China has tried to secure energy and raw materials without confronting the United States and the West. China’s long-standing willingness to deal with states that the West regards pariahs is in part a practical and ideological refusal to make judgments about other countries’ domestic policy. It is also in part a recognition that dealing with Sudan, Angola, Iran or Uzbekistan allows China to avoid direct confrontation with Western interests. However, the larger China has become, the sheer scale of its energy needs has forced it more and more to intrude into areas that the United States regards as its own sphere of influence. The relationship with the United States and the West in general is, therefore, becoming steadily tenser. Examples abound. Consider China’s courtship of Canada. The Chinese oil company, Sinopec, has acquired a 40% stake in Synenco Energy’s $4.5 bn Northerm Lights Oil Sands project, which is expected to yield 100,000 b/d by 2010, while CNOOC has acquired 16.9% stake in MEG Energy Corporation, which operates the Christina Lake project, near McMurray. Yet only six years earlier Dick Cheney, the former US vice-president, had declared that Canada’s tar sands were part of the United States’ energy security. The Chinese oil companies have also followed an aggressive investment policy in the western hemi- sphere – especially Venezuela, where in 2005, they committed $450 million to the development of 15 oilfields and one gas project in exchange for 100,000 b/d of oil, 3 mn t/y of fuel oil and 1.8 mn t/y of orimulsion (an alternative boiler fuel). CNPC has also been given significant oil and gas development opportunities in the country including the fields at Zumano in eastern Venezuela, which hold an esti- mated 400 million barrels of oil. 12 Saudi Arabia, holder of the world’s largest proven oil reserves, supplies 16% of China’s oil imports and is an object of assiduous Chinese courtship – again, a direct challenge to the United States’ tradi- tional sphere of influence. For the moment Saudi Arabia knows that its long-term security and its defence interests lie with the United States but it might one day make sense for the Saudis to align themselves with a rising power like China. This reality has already begun to mean that China has diplomatic oppor- tunities to confront the United States which were not available even five years ago.

#### China wants more control over US and their oil supplies; this will give China the power needed to declare a war with the US. Most likely scenario for a great power war.

Salameh 10, Mamdouh G.- International Association for Energy Economics, First Quarter, (China’s Global Oil Diplomacy: Benign or Hostile?), [www.iaee.org/en/publications/newsletterdl.aspx?id=93](http://www.iaee.org/en/publications/newsletterdl.aspx?id=93) ejj.

There are three primary flashpoints between the United States and China: oil, trade and currency. Looming over all of them is Taiwan and the possibility that one day China will test the commitment of the United States to defend Taiwan against a Chinese invasion. A network of Chinese-financed pipelines that will take oil away from the United States towards its challenger is appearing or planned in Canada, Venezuela, Sudan and Iran. Four-fifths of China’s oil is transported through the Strait of Malacca. At one end of the Strait is an American fleet at the Changi Naval Base in Singapore. At the other end, the United States’ Indian Ocean fleet operates from Diego Garcia. From Beijing’s perspective, the United States has its fingers on China’s windpipe; President Hu Jintao makes frequent reference to the ‘Malacca problem’. China wants more oil brought in by pipeline across Asia and by tanker across the Pacific. It wants a deep-sea fleet to protect its interests. Henry Kissinger has warned of a potential great-power conflict over oil: this is it.

### Saudi-China: Oil wars

#### A. Close Sino-Saudi ties sparks regional conflict and oil wars

LUFT and KORIN 4 (Gal, exec director of IAGS & Anne, director of policy "The Sino-Saudi Connection," http://www.iags.org/sinosaudi.htm)

Even if Saudi Arabia does not pursue nuclear status, however, it has abundant reasons for looking east to China both for markets and for military assistance, just as China has abundant reasons for looking west to Saudi Arabia for continued access to Middle Eastern oil. And aside from these mutual interests, an alliance with China would hold other attraction for the Saudis. Unlike the U.S., the Chinese do not aspire to change the Arab way of life, or impose freedom and democracy on regimes that view such ideas with skepticism and fear. Indeed, Chinese attitudes toward the open societies of the West are markedly similar to those of the Arab despotisms themselves. The Chinese also have at their disposal immense reserves of manpower, which they can deploy to protect the oil resources of any new allies they acquire. Thousands of Chinese soldiers disguised as oil workers, for example, are used today to guard petroleum facilities in Sudan. With 11 million men reaching military age annually, China could easily replicate this elsewhere. Finally, while the U.S. is continually castigated by the Arabs for its closeness to Israel, China's ties with Jerusalem have never risen above the level of indifference.

#### B. Oil wars escalate globally

CABRAL 10 (Jim. international relations and polisci at Landmark, "Beyond BP: Michael Klare on US energy policy" Aug 12, http://www.valleyadvocate.com/article.cfm?aid=12165)

Not surprisingly, the accelerating militarization of energy procurement increases the possibilities for armed international conflict. Klare explains how nationalism lends momentum to this process: "The long-term risk of escalation is growing even more potent because major energy importers and exporters regularly appeal to that most dangerous of emotions, nationalism, in making their claim over the management of energy flows. Nationalistic appeals, once they have gripped a populace, almost invariably promote fierce emotion and irrationality. Add to this fact that the leaders of most countries involved in the great energy race have come to view the struggle over hydrocarbon assets as a 'zero-sum' contest—one in which a gain for one country almost always represents a loss for others. A zero-sum mentality leads to a loss of flexibility in crisis situations, while the lens of nationalism turns the pursuit of energy assets into a sacred obligation of senior government officials." The "competitive arms transfers" that represent the militarization of energy procurement also have another disturbing upshot: strengthening and legitimizing repressive, corrupt foreign regimes. In the case of U.S. arms recipients, the list is long and growing. It includes long-time allies in the Persian Gulf region—most notably Saudi Arabia—whose anachronistic social policies effectively reduce women to the status of second-class citizens; corruptible African governments in Nigeria, Chad, and Angola, where—along with off-shore drilling sites along the continent's west coast—U.S.-based oil companies such as Exxon and Chevron currently operate; and more recent allies in the energy-rich Caspian Sea region, including those Klare refers to as the "autocratic regimes" of Kazakhstan, Kyrgyzstan and Uzbekistan. While the governments of the oil-rich Persian Gulf have long been wooed with energy deficit countries' military largess, the emergence of the Caspian Sea region's governments as coveted allies may come as a bit of a surprise to some. Klare soberly sketches out a "three-way struggle for geopolitical advantage" in the Caspian Sea basin, as the U.S., Russia (Caspian states having formerly been Soviet republics) and China funnel arms and other forms of military assistance into the region in competition for influence there. Again stressing the dangers of an escalation of conflict, Klare notes that "This three-way struggle...is militarizing the Caspian basin, inundating the region with advanced arms and an ever-growing corps of military advisers, instructors, technicians, and combat-support personnel. [It will] heighten traditional suspicions and rivalries that have long plagued the region. The Great Powers are not only adding tinder to possible future fires, but also increasing the risk that they will be caught in any conflagration."

### Econ/Dollar Heg

#### US-Saudi Relations key to global economy and dollar hegemony

Freeman 4 (Chas,president of Middle East Policy Council, "Securing US energy in a Changing World," Middle East Policy, 11:4,8-9)

The second matter – far more grave in many ways – is the demonstration of the end of some aspects of the special relationship with Saudi Arabia: the end of the discounts and the end of the Saudi emphasis on primacy in the American market. There’s another issue you didn’t mention, which we will get into, and that is the defense of the dollar by the Saudis. Twice within OPEC, other members, Iran in particular, have moved to eliminate the dollar as the unit of account for the oil trade. Were this to occur in the current context of massive U.S. budget, balance-of-trade and balance-of-payments deficits, the results could be absolutely devastating for the global economy and our own. The reason the Saudis defended the dollar on the two previous occasions was not economic analysis but political affinity for the United States. Question: If that affinity is no longer there, will they play that role? This is a large issue, with people like Paul Volcker saying there is a very substantial danger within the next five years of some sort of dollar collapse. This is not a minor matter.

### Key to Heg

#### **US Saudi Relations Key to Heg**

Zakheim 6-25-12 (Dov S., former official of the United States government and on the council for foreign relations, A Smooth Transition for change, http://shadow.foreignpolicy.com/posts/2012/06/25/a\_smooth\_transition\_for\_a\_change)

Both the air and naval deals had been contemplated for years, but nothing was finalized until Prince Salman took the helm of the Defense Ministry after Prince Sultan's passing. The decision to undertake both deals is crucial for the preservation of an American industrial base that is already reeling in the wake of U.S. Department of Defense budget cuts. It reflects the newly named Crown Prince's readiness to maintain the close military ties that characterize U.S.-Saudi relations. The French had tried every possible means, including visits by President Sarkozy, to win the navy contract.

### Terrorism

#### US-Saudi Relations key to averting terrorism

KERN 10 (Nathaniel, president of Foreign Reports, "Gulf Oil and Gas: What Are the Producers Thinking?" www.relooney.info/SI\_Milken-Arabia/0-Important\_16.pdf)

The United States and Saudi Arabia launched a Strategic Dialogue when Crown Prince Abdullah visited President Bush in Crawford in 2005, to identify and work together on shared policy goals that go beyond oil and security. There are more than 20,000 Saudi students in the United States; U.S. companies are far and away the largest investors in Saudi Arabia; Saudi Arabia has significant tangible and financial investments in the United States; and the United States is Saudi Arabia's largest trading partner. Saudi Arabia is also a vital U.S. partner in combating terrorism, in part because it learned the hard way that it had to understand the mind-set of Islamist terrorism in order to defeat it. It probably has a more sophisticated understanding of this mind-set than any other government. It also has the religious authority to counter extremist jihadi ideology. Across the entire region, Saudi Arabia supports moderation against extremism: in the Israeli-Palestinian dispute, among competing Palestinian groups, in Lebanon, in Afghanistan, in Iraq and in Pakistan. It is no secret that President Obama and his top cabinet secretaries spend more time coordinating with Saudi Arabia over regional issues than they do over bilateral ones.

### Internal Link: Iran

#### US-Saudi relations key to check Iran

KERN 10 (Nathaniel, president of Foreign Reports, "Gulf Oil and Gas: What Are the Producers Thinking?" www.relooney.info/SI\_Milken-Arabia/0-Important\_16.pdf)

Saudi Arabia brings a useful set of skills to countering Iranian influence in places like Lebanon and Iraq. In both Lebanon and Iraq, Saudi soft power is exercised more overtly than Iran's covert assistance to armed groups. Cash plays a bigger, but entirely lawful, role in Lebanese politics than it should, but U.S. policy precludes it from spreading cash around to win votes in elections. After Hezbollah did less well than it expected in Lebanon's 2009 parliamentary elections, its leader, Hassan Nasrallah, gave a speech in which he conceded that Saudi Arabia had vastly outspent Iran in the elections. He jokingly acknowledged that this spending was so popular in Lebanon that many Lebanese now favor elections annually instead of every four years.

## Saudi Backstopping

### IL: Flood the market

#### Decreased prices will cause market flood – Empirically proven

LUCIANI, 10 (Giamcomo, "From Price Taker to Price Maker?" Al-Rahmaniah Cultural Center, 19)

It is very difficult to envisage OPEC taking drastic action to quench an upward price rally. After all, OPEC countries are sellers, and draw an immediate benefit from higher prices. Even Saudi Arabia will be reluctant to open the taps in full, because their bargaining position is very weak if their production capacity is fully used. Paradoxically, the Kingdom is more likely to open taps when prices are weak whenever it feels the need to re-establish production discipline, and has done so in 1985 and again in 1999. But when prices are rising and the world is anxious because of potential political disturbances, the Kingdom generally aims at maintaining a reserve which will be used only if conditions further worsen. In practice, this reserve is almost never used: it was used in 1980-81, when Iraq attacked Iran, and again in 1990-91, when Iraq invaded Kuwait: in short, in conditions of open warfare.

#### Plan immediately drops prices – it is magnified by long term production gluts

MAUGERI senior fellow at Harvard, June 2012 (Leonardo, "Oil: The Next Revolution" Harvard's Geopolitics of Energy Series, p 5)

A hypothetical oil price downturn would have a significant impact, albeit short-lived, if it occurred before most of the projects considered in this paper has advanced significantly - that is before 2015. Conversely, if an oil price collapse were to occur after 2012, a prolonged phase of overproduction could take place, because production capacity would have already expanded and production costs would have decreased as expected, unless oil demand were to grow at a sustained yearly rate of at least 1.6 percent for the entire decade.

### AT: No spare capacity

#### No internal demand pressures - Alternative energy solves

Arab Times 11 ("Saudi Arabia Oil Exports Under Threat from Within," 10/12, http://www.arabtimesonline.com/NewsDetails/tabid/96/smid/414/ArticleID/174916/reftab/69/t/Saudi-Arabia-oil-exports-under-threat-from-within/Default.aspx)

Some analysts say Saudi power sector oil use already far exceeds a million barrels on hot days and that it will keep rising unless the kingdom finds much more gas or lifts a gas import ban.¶ New gas fields due onstream over the next few years should help temper oil burning in the power sector a little. But gas prices fixed at a fraction of international levels are both driving up industrial use rapidly while discouraging new gas finds needed to meet future demand.¶ Instead, Riyadh hopes one of the world’s most ambitious nuclear power programmes, which could see 16 reactors built by 2030 and the first online around 2020, will slash oil burning and maintain oil export revenues. “Saudi Arabia will be able to fuel the growth of its burgeoning economy without significantly reducing its oil exporting capability,” Saudi Prince Turki al-Faisal said in a speech in Madrid in late September.¶ “Solar energy will fill the gap in the short term ... and within a decade, plans call for nuclear power to play the leading role.

#### Skeptics are wrong – Saudi Arabia has plenty of oil

#### MAUGERI senior fellow at Harvard, June 2012 (Leonardo, "Oil: The Next Revolution" Harvard's Geopolitics of Energy Series,

Even the most oil-rich country in the world, Saudi Arabia, still has much potential to exploit. Despite a flurry of recent doubts about the actual size of its reserves (a renewed attempt to discredit the country's roles the world's Central bank for oil), the Kingdom will probably continue to defy skeptics for decades to come. Currently, its 260 billion barrels of proven reserves, a fifth of the world's total, represent nearly one-third of the original oil in place estimated by the Saudi oil giant, Saudi Aramco; yet the company has pointed out that its measurement does not take into account the potential future advantages of enhanced recovery techniques.

### Renewables Impact

#### As oil prices increase, the demand for renewable energy goes down.

Almeida 12(Henrique, reporter on various topics, including renewable energy, Rising Oil Prices to Bolster Demand for Clean Energy, EDP Says, Bloomburg, http://www.bloomberg.com/news/2012-07-19/rising-oil-prices-to-bolster-demand-for-clean-energy-edp-says.html)

EDP Renovaveis SA (EDPR), the renewables unit of EDP-Energias de Portugal SA, expects higher oil prices to boost demand for cleaner and cheaper sources of energy. ¶ “The renewable energy business model is based fundamentally on the need to produce cleaner and cheaper energy,” Chief Executive Officer Joao Manso Neto said in an interview in Lisbon yesterday. “The bigger the rise in oil prices the more it becomes evident that this tendency for the medium term is correct.” ¶ Oil advanced for a seventh day in New York, the longest run of gains since February, to $90.65 a barrel in electronic trading. EDP, which says its renewable energy unit is the world’s third-biggest wind power producer, is investing in dams and wind turbines to cut reliance on fossil fuels. While EDP Renovaveis expects to carry out a plan to invest 3.2 billion euros ($3.9 billion) through 2015 on wind capacity and expand to eastern Europe and Brazil, the Lisbon-based company will have no problem adjusting these investments if market conditions change, Manso Neto said. ¶ “If profitable investment opportunities are not there or financing conditions are worse than expected we will have no problem adjusting” the program, he said. ¶ The plan will help add 2.3 gigawatts of wind generation in markets such as Poland, Romania and Brazil, EDP Renovaveis said May 22. The company had 7.5 gigawatts of capacity at the end of 2011. ¶ “Spain, the U.S. and Portugal are our most important markets,” Manso Neto said. “The sources of growth for the next phase of this plan will mainly be high-growth markets in eastern Europe and Brazil.”

#### **High oil prices needed to switch to renewable energy**

Sadorsky, 2008 (Sadorsky, Perry. Associate Professor of Economics at Schulich School of Business, York University. Renewable energy consumption, CO2 emissions and oil prices in the G7 countries. December 22, 2008. <http://www.sciencedirect.com> /science/article/pii/S0140988309000048)

In 2004, oil accounted for 35% of world energy demand ([IEA, 2006](http://www.sciencedirect.com/science/article/pii/S0140988309000048#bib16), Table 2.1). Fossil fuels as a group (coal,oil and natural gas) accounted for 80% of world energy demand. In this paper, renewable energy is considered to be a substitute for oil. Rising oil prices should encourage households and businesses to reduce consumption, purchase more efficient products and switch to renewable energy sources ([Economic Report of the President, 2006](http://www.sciencedirect.com/science/article/pii/S0140988309000048#bib8), page 243). In a different context, [Majumdar and Parikh (1996)](http://www.sciencedirect.com/science/article/pii/S0140988309000048#bib24) use oil prices and population to model the demand for energy in India and [Silk and Joust (1997)](http://www.sciencedirect.com/science/article/pii/S0140988309000048#bib33) use oil prices to model residential energy demand in the United States.

#### Renewable energy sources solve for Global Warming

Union of Concerned Scientists 09 (Renewable Energy Standards—Mitigating Global Warming, <http://www.ucsusa.org/clean_energy/smart-energy-solutions/increase-renewables/renewable-energy.html>)

In order to ensure healthy air and a stable climate for our children and grandchildren, we must make responsible decisions about our energy sources. Existing technologies and forward-thinking policies offer practical and affordable solutions to reduce our dependence on the fossil fuels that currently dominate America’s electricity system. This system threatens the health of our communities by polluting the air and contributing to global warming. If left unchecked, heat-trapping emissions, such as carbon dioxide (CO2), are expected to cause irreversible damage to communities throughout the United States and around the world. This damage will likely include increased urban air pollution and emerging infectious diseases such as West Nile Virus; sea-level rise causing flooding and erosion in coastal communities; extreme weather including more intense droughts and hurricanes; reduced productivity of some agricultural regions; and loss of many treasured landscapes and species—from coral reefs to polar bears. Practical solutions do exist. For example, more than half of U.S. states have adopted a renewable electricity standard—a policy that requires electricity suppliers to gradually increase their use of renewable energy such as wind, solar, geothermal, and bioenergy. These states are demonstrating that renewable standards are an affordable solution to reduce CO2 and other unhealthy air emissions, while alleviating the harmful impact that fossil fuel extraction, transport, and use have on land and water resources. Renewable electricity standards have been enacted in 28 states and the District of Columbia. UCS research has found that these standards will result in the development of 76,750 megawatts (MW) of new renewable energy capacity by 2025—an increase of more than 570 percent over total U.S. levels (excluding hydro) in 1997. This commitment to increasing renewable energy at the state level will have a significant impact on reducing CO2 emissions. By 2025, state standards will reduce total annual CO2 emissions by more than 183 million metric tons (MMT)—the equivalent of taking 30 million cars off the road or planting a forest large enough to cover the entire state of Washington. In addition to realizing significant reduction of harmful emissions, the states have also found that renewable standards are an effective means to help meet critical fuel diversity, energy security, and economic goals. In fact, this approach has been so successful that 18 states—including Minnesota, Wisconsin, Pennsylvania, and most recently Illinois—have revisited and significantly increased or accelerated their annual requirements. While many states are making important strides in reducing CO2 emissions with renewable electricity standards, greater benefits could be achieved if Congress adopted a national standard. A 2007 UCS analysis examined the costs and benefits of a 20 percent by 2020 renewable standard, and found that America would increase its total renewable power to 117,000 MW in 2020—nearly 6 times the capacity levels in 2005 (about 20,000 MW). The 20 percent national standard would reduce the projected growth in power plant CO2 emissions under a business-as-usual scenario by 63 percent, or 223 MMT per year by 2020. This level of reductions is equivalent to taking 36.4 million cars off the road. Studies by the U.S. Department of Energy’s Energy Information Administration have shown similar even greater annual CO2 emission reductions. With only five percent of the world population, the United States produces nearly 25 percent of annual global heat-trapping emissions. Electricity generation accounts for fully one-third of these emissions. We have a responsibility and a compelling interest to significantly reduce these harmful emissions. Renewable electricity standards offer a smart, affordable climate solution with a proven track record.

### Economy Impact

#### Cheap oil hurts economy,

Carney, 7/19 – Mark Carney, 7/19/2012. Bank of Canada Governor, Cheap Oil Hurts Economy,” Toronto Star News.

**Consumers like paying less at the gas pump, but cheaper oil is bad for the** overall Canadian **economy,** Bank of Canada governor Mark **Carney** says.Declining **oil prices**, brought on by weakening global **demand,** is a key reason the central bank lowered its forecast for Canada's future economic growth, **Carney** said Wednesday."Certainly, as **consumers, we appreciate paying less for gasoline**," **Carney** told a news conference in Ottawa after issuing the bank's quarterly monetary policy report. "**But** on the whole, what's **the** net **impact of lower oil prices** on Canada? **It's negative**." Given Canada's growing **dependence** on **oil** as a source of wealth, **Carney said lower oil prices hurt investment, government revenues and incomes across the country.**That insight - along with a prediction record household debt levels will worsen before they get better - was among the few new pieces of information in a report that confirmed what the bank had said a day earlier during its rate-setting announcement.Household debt levels are expected to rise in the short term, despite tighter restrictions on mortgages, as a recent bout of home buying results in another round of borrowing, the central bank said.Citing a worsening outlook for the global economy, but relatively strong domestic performance, **Carney** said the bank would hold its trend-setting interest rate to 1 per cent until September.It also stuck with its previous prediction that "some withdrawal of the present considerable monetary policy stimulus may become appropriate."In other words, it believes Canada's economy is unlikely to worsen assuming the debt crisis in the eurozone remains "contained."**The bank lowered its growth forecast for the Canadian economy to 2.1 per cent and 2.3 per cent** for this year and next year, down from 2.4 per cent for both in April.**The central bank** also **lowered its outlook for inflation**, citing **falling oil prices as a factor**."Over time, the oilpatch has become a more important component of the Canadian economy, not just for Alberta," said Michael Gregory, senior economist, BMO Capital Market.So, while higher **oil prices** can dent consumer spending on other items, such as restaurants, it also boosts employment and investment across the country, he said."This is one of the big differences compared to (the central bank's) April (monetary report)," Gregory said.The bank is still worried about the debt-crisis in Europe. It's still worried about the end of fiscal stimulus in the U.S.What's new is the degree to which the bank is worried about slower growth in emerging market economies, such as China. "While we don't trade a lot with them directly, they influence the **prices** of a lot of things we make."When China's economy slows down, the global **price of oil** falls."We're a **high** cost producer. The oilsands are expensive to produce," Gregory notes. "When **oil** falls to around $80-a-barrel WTI (West Texas Intermediate), people start to take note. If things get too much below that it could begin to impact some of the investment plans for some of the higher cost oilsands projects."**Oil prices have fallen about 15 per cent since April and are expected to remain weak through 2014, the central bank said.** Meanwhile, **the U.S. economy continued to slow in June and early July**, according to a Federal Reserve survey released Wednesday. Popularly known as the Beige Book, it said three of the Fed's 12 banking districts - New York, Philadelphia and Cleveland - reported weaker growth while a fourth, Richmond, said economic activity was mixed.

### High Oil Prices Solve for Econ

#### High Oil Prices Save Global Economy

Fardoust 5-31-12 (Shahrokh, Director, Operations and Strategy, in Development Economics Vice Presidency, at the World Bank, Managing High Oil Prices and Recycling Petrodollars, http://carnegieendowment.org/ieb/2012/05/31/managing-high-oil-prices-and-recycling-petrodollars/b10a)

Sustained high oil prices have enabled oil exporters to enjoy a period of unprecedented prosperity. Given the size of these countries’ revenues and balance of payments surpluses, what they do with their petrodollars is increasingly important. In the past, oil exporters have recycled most of their earnings into imports of goods and services and deposits at international banks, helping to support global aggregate demand. The financing needs of oil-importing countries and the fragility of the global economy mean that the choices of oil exporters have a big global impact.¶ International oil prices have typically been volatile (see Chart 1). But there is something unusual about the current situation. Prices for Brent crude—a benchmark for much of the oil traded today—have hovered around the $100 per barrel mark for nearly fifteen consecutive months, which is unprecedented. The last time they were this high—and even then, only for six consecutive months—was in August 2008, just before the collapse of Lehman Brothers and the onset of the Great Recession, which led to a massive $112 per barrel decline in the price of oil. Recently, oil prices have declined only moderately, despite a relatively weak economic recovery in the advanced economies, a slowdown in the pace of growth in emerging economies, and deep concerns about the stability of the eurozone.¶ A number of factors appear to be keeping oil prices high. First, the global oil supply has yet to react to high prices and spare capacity remains low. Second, demand from emerging economies continues to grow, in part due to the precautionary stocking of crude oil. Third, supply losses in Libya, Syria, and South Sudan have tightened global markets. The five-year-out forward prices of oil have remained around $90 a barrel. Finally, there is also a risk premium of about $15 to $20 per barrel associated with political and social tensions across the Middle East. An impending oil-exports embargo and financial sanctions against Iran by the European Union and the United States, for instance, could reduce Iranian oil exports by an estimated 0.8 to 1 million barrels per day from around 2.5 million.¶ High oil prices have boosted the fortunes of oil exporters. In 2011, their combined export proceeds reached an unprecedented $2 trillion, and their aggregate current account surplus amounted to $600 billion or about 11 percent of the group’s total GDP. That amounted to the largest current account imbalance globally—compared to the U.S. current account deficit at $473 billion (see Charts 2 and 3).¶ There has traditionally been a strong correlation between oil price shocks and global recessions, but the global economy seems so far to have been able to weather $100 per barrel oil prices. This is at least in part because oil exporters have, relatively smoothly, recycled their foreign exchange earnings into global trade and financial markets, offsetting the negative demand shock on the rest of the world (see Table 1 for a detailed breakdown of petrodollars recycling over the past decade). Accommodative monetary policy in most major economies, together with greater efficiency in energy use and diversification away from oil to alternatives, has also helped.¶ ¶ When oil prices rise sharply, however, all oil-exporting countries have difficulty absorbing their windfall income quickly. This was the case during the 2010–11 period when the gap between the value of these countries’ exports and imports widened sharply (see Chart 5) as did the gap between domestic investment and savings (see Chart 6). This took place despite the fact that many oil exporters, particularly those in the Middle East, had substantially increased government spending on social and infrastructure programs in response to pressures at the regional level associated with the Arab Spring. Sustaining these higher domestic spending levels, however, will require oil prices to remain relatively high. Specifically, “break-even” oil prices have increased sharply and will have to stay in the range of $80 to $100 per barrel for oil exporters to achieve and maintain fiscal balance.¶ For now, the best strategy for oil exporters (and for the global economy) is to keep oil prices within their “break-even” band of $80 to $100 per barrel and prevent sharp spikes. They should also continue to recycle their petrodollars as quickly as possible through imports of goods and services. Some of their international investments should be dedicated to meeting the massive need for infrastructure investment in emerging and developing economies, which are becoming increasingly important markets for their oil exports and sources of imports

#### High Oil Prices Benefit Economy

Eland 2-29-12 (Ivan, Senior Fellow and Director of the Center on Peace & Liberty at The Independent Institute, Energy Protectionism Is Not Good Policy, http://www.independent.org/newsroom/article.asp?id=3264)

U.S. policymakers and pundits continue to treat energy as a “strategic” commodity, which is just a way of justifying inefficient government meddling in the industry sector. Before the 1973 Middle East oil crisis, the federal government tried to keep oil prices high to subsidize the oil industry. Ever since the Arabs wrested control of their oil resources from the U.S.-dominated international oil cartel and formed an imitative cartel of their own, the U.S. government has decried high oil prices and spent hundreds of billions of dollars of taxpayer money to “protect” Saudi Arabia and other Middle East producers in exchange for their efforts to restrain oil prices.¶ Yet now talk of the government taking action to keep energy prices high is again afoot. Thomas Friedman, the dean of pundits advocating military-protected neo-mercantilism while at the same time pushing for energy protectionism, advocates a government price floor on any barrel of oil or gallon of gasoline sold or imported into America, taxing anything below that level. He argues that a higher oil price “benefits America as we rapidly become a bigger oil producer.” He concludes, “As our producers succeed, we would become increasingly energy self-sufficient, keep a lot more dollars at home for our Treasury, stimulate innovation on renewables, and drive down the global oil price that is the sole source sustaining Iran and other petro-dictators.”¶ Friedman pleads for government intervention to impose an oil-price floor because increased oil production from offshore wells and unconventional sources, as well as discoveries of natural gas all over America, have again made the United States a major oil and gas producer. Also, predicted lower domestic oil consumption because of George W. Bush’s subsidization of ethanol—by mandating fixed quantities of biofuels used in gasoline—and recently pledged higher fuel efficiency standards by the auto industry lead Friedman to foresee the export of more U.S. crude oil. Thus, Friedman implies that the United States should now join the OPEC cartel and other oil-exporting countries in keeping prices high.¶ Yet when Friedman says that a higher oil price “benefits America,” he really means the U.S. oil industry. An oil-price floor and more petroleum taxes certainly don’t help petroleum consumers—that is, the vast majority of Americans.¶ Friedman has always been a vociferous proponent of “energy independence.” He gleefully notes that with all of this new American gas and oil production and consequent increase in energy independence, domestic production accounted for 81 percent of U.S. energy demand through the first 10 months of 2011. In my new book, No War for Oil: U.S. Dependency and the Middle East, I refute the need for even worrying about American dependence on imported energy and note that if Americans want energy independence, they will pay through the nose for it. This principle is demonstrated by Friedman’s advocacy of a price floor to subsidize domestic oil production.¶ Protectionism and neo-mercantilism, the government subsidization of certain private businesses at the expense of consumers, are as inefficient in energy as they are in other products and commodities. One hidden subsidy for American oil companies and overseas oil-producing countries that my book exposes are the hundreds of billions of dollars spent “defending” U.S. oil interests abroad. Even if wars in the Middle East occur, oil is a valuable commodity, and exporting it generates handsome profits. Thus, oil is often exported around and sometimes, as in the example of the Iran-Iraq War in the 1980s, through wars. Guarding against the rare oil-supply disruption by stationing vast American military forces, whose expenses are not contingent, in the Middle East and other places is unnecessary to prevent oil price shocks to developed economies that have proven resistant to them. Even oil protectionists and neo-mercantilists, such as Friedman, apparently don’t put much credence in the theory that high oil prices damage developed economies. In fact, they usually support wars in the Middle East and economic sanctions on oil-producing nations—for example, against Saddam’s Iraq and currently against Iran—that artificially drive oil prices up.¶ In fact, stationing U.S. forces all over the Middle East may be done less for economic reasons and more for imperial ones. The motive may be less to guard American and allied economies oil-price-spike-induced harm, which is unlikely, and more to keep a finger on the juggler of petroleum supplies for important importing countries, such as China, India, Japan, South Korea, and Europe. But as explicated by the economists of the 18th an 19th centuries, empire does not pay financially.

### Iran Backlash

#### Backstopping will result in Iran backlash.

Arab Times 12 ("Saudi favors $100 pb oil, says can pump more fast" 1/16, http://www.arabtimesonline.com/NewsDetails/tabid/96/smid/414/ArticleID/178502/reftab/69/Default.aspx)

Tehran on Sunday advised its Gulf Arab neighbours against raising output to make up for any shortfall from Iran.¶ Iran’s representative at the Organization of the Petroleum Exporting Countries said any such action by the Gulf countries “will not be perceived as friendly.”¶ Tehran has threatened to block the Strait of Hormuz, the gateway for large volumes of crude from the Gulf, should it face sanctions on its crude.

#### Low prices cause Iran Middle east conflict.

McNally 12, Robert McNally January 2012 He has previously served as an oil market analyst with Energy Security Analysis, a market and policy analyst for Tudor Investment Corporation, special assistant to the president on the National Economic Council, and senior director for international energy on the National Security Council, (Managing Oil Market Disruption in a Confrontation with Iran)

Despite officials’ efforts to avoid a supply loss, Iran’s threats and the perceived possibility of future escalation have and likely will continue to lead nervous traders to add an Iran premium to global crude prices. Iran’s leaders probably understand that a full-blown conventional conflict with the United States would be extremely costly, if not catastrophic. Making good on their threat to retaliate 4 to sanctions by attempting to close the Strait of Hormuz is unlikely, unless Iranian leadership believes the regime itself is endangered; in any case, analysts generally believe that Tehran could not close the strait for an extended period of time.7 Short of a major confrontation, Tehran could escalate by harassing tankers in the region with mines, small boats, and missiles in order to raise global prices and possibly induce Russia or China to intervene diplomatically on its behalf to relieve pressure. Iran could also orchestrate bombings in the southern Iraqi oil production system, which normally exports about 1.7 mb/d.8 In October and December 2011, bomb attacks against the Rumaila field in southern Iraq reduced oil production by a significant 0.6-0.7 mb/d, albeit for only a brief time.

#### Iran will go to war if it cannot sell its oil

Bond 2012 (Steven, staff writer, "Saudi oil production to stay high on US demand, Iran sanctions" AME http://www.ameinfo.com/293804.html)

"The rhetoric suggests a reluctance to buy Iranian oil in Asia but the reality might be different, particularly if Iran offers discounted oil. Paying for Iranian oil will also be problematic and that may deter buyers. Total global supply is also difficult to estimate given that both Syrian and Yemeni oil output is currently disrupted and Sudan's exports have come to a halt. Flows from the North Sea have also been disappointing so far this year. So the price is expected to continue to attract a risk premium. "The biggest 'geopolitical' risk is probably if Iran fails to find buyers for its oil. Given how key oil revenue is to the functioning of the Iranian economy, it could be the catalyst for Iran to take more drastic, perhaps military, measures."

### AT: Petro-hording

#### Petro-hording is a myth - high oil prices maintain global economic stability

DECRESSIN, deputy director of research department at the IMF, 5/7/12 (Jorg, "Iran, Oil Prices, and the Global Economy," Carnegie Endowment for International Peace," carnegieendowment.org/files/0508carnegie-oil.pdf)

Reason number three, and I think we never appreciated this enough, is the recycling of petrodollars. The reason we are often concerned about high oil prices is that it shifts purchasing power from many that are importing oil to a few that are exporting oil. And those few tend to save the oil, but – save the revenues, the proceeds. But in the process of saving, they’re recycling it to all national markets, and therefore support low interest rates, more investment and so forth. So this is the third reason while oil may not have done as much damage.

## Saudi Econ Collapse

### Internal Link: Saudi econ collapse

#### Internal pressures put the Saudi economy on brink of collapse – Only high oil prices will prevent recession

Arab News, 11 ("Saudi Arabia's Coming Oil and Fiscal Challenge," July 19. accessed on 7/23/12 at: http://memrieconomicblog.org/bin/content.cgi?article=494)

For the near term, Saudi Arabia is likely to continue to receive oil revenues in excess of its spending needs, with the oil price needed to balance the budget currently about $20 per barrel below the actual price. Not widely realized, however, is that three major trends, if continued on their current and most likely paths, portend a much more difficult energy and revenue future for the Kingdom. These trends are: - The Kingdom's domestic consumption of oil (and gas) is rising very sharply, reducing the amount of oil available for export. Low domestic prices-oil is sold in Saudi Arabia at between 3% and 20% of the global price-mean the efficiency of oil use is worsening. Consumption is growing at about twice the rate of nonoil GDP growth. - Saudi government spending is likely to continue rising at an annual pace of 7% or more, with ongoing reliance on oil revenues as the primary revenue source. - Saudi oil output has not risen significantly in 30 years, and in our view is unlikely to rise on a sustained basis over the next decade or more. The Jadwa report said combination of these trends would leave only sustained sharp rises in oil prices to meet fiscal needs. "While we think prices will continue to rise, we do not think they will rise at the rate required to meet the 'breakeven' price for the budget. Indeed, a decade-long plateau in oil prices, as the market has previously experienced, would likely lead to a rapid deterioration of the Kingdom's future fiscal position," the report added.

#### High oil prices key to Saudi econ – even without price specification, history proves

Arab News, 11 ("Saudi Arabia's Coming Oil and Fiscal Challenge," July 19. accessed on 7/23/12 at: http://memrieconomicblog.org/bin/content.cgi?article=494)

Should Saudi oil production rise only gradually over coming years then price becomes the important factor in determining whether oil revenues satisfy the country's needs. Saudi officials stated that they were uncomfortable with prices as WTI was rising above $100 per barrel, and have also suggested that a reasonable price is between $70 and $90 per barrel. In general though, Saudi officials avoid stating a specific price target and prefer to emphasize that their policy is to monitor the fundamentals of supply and demand and ensure that the global market is adequately supplied with oil. High oil prices are the reason for the transformation in the Kingdom's balance sheet. But they have also enabled a surge in government spending. History shows that it has been challenging for the government to moderate the growth in spending, regardless of the oil price environment. Government spending growth averaged 13% per year between 2003 and 2010. In 2003 the government ran a budget surplus of SR36 billion ($10 billion) with an average price for Saudi export crude of $28 per barrel. In 2009, the budget was in deficit (SR86 billion; $23 billion) even though Saudi export crude averaged $62 per barrel.

#### Saudi economic collapse risks collapsing the global economy – three reasons

HANDY 8 (Howard, chief economist at the Samba Financial Group, "The Saudi Economy: Recent Performance and Prospects for 2008-9," April: http://www.susris.com/articles/2008/ioi/080410-samba-economy.html)

Saudi Arabia commands a pivotal position in the global economy. As both the world’s largest oil producer, and the only one with significant spare capacity, the Kingdom has a substantial influence on the supply (and hence price) of this most crucial resource. In addition, Saudi Arabia is an important exporter of capital. Although an increasing amount of the country's oil earnings are invested at home, such is the scale of these earnings that the country has continued to accumulate foreign assets. In 2007, the Saudi Arabian Monetary Authority (SAMA, the central bank) increased its foreign assets by $80 billion. Most of this is likely to have been channeled into US dollar-denominated assets, representing significant support for the greenback at a time when the US external current account remains in large deficit and there are growing uncertainties about US economic prospects. (We will explore Saudi Arabia's role in global financial intermediation in more detail in a later report.) Finally, the Kingdom's economy has been growing rapidly in recent years, doubling in nominal terms since 2002. With nominal GDP projected at around $465 billion this year, Saudi Arabia's economy is now on a par with that of Switzerland. It accounts for a little more that half of the total output of the GCC and is twice the size of the second largest GCC economy, the UAE. It is a major trading nation, and the second largest global source of outward remittances after the US.

## AT: Saudi Dutch Disease

#### Saudi is diversifying now: high prices key.

Arab News, 7/10 ("Saudi Arabia's economy healthy enough to sustain low oil prices," http://www.arabnews.com/kingdom’s-economy-healthy-enough-sustain-low-oil-prices-samba)

Saudi Arabia is aiming to use this period of high oil prices to lessen dependence on oil itself. The report said value of nonoil exports have grown by an annual average of 17 percent over the past decade, increasing their share of total exports from 14 percent to 17 percent. Most of these are derived from hydrocarbons (petrochemicals, refined products, steel), but they are sufficiently far up the value chain to soften the direct dependence on oil prices. Nevertheless, the health of the domestic economy is still intimately linked to oil earnings. Hydrocarbons accounts directly for 28 percent of real GDP, and its indirect impact through government spending is considerably greater. The need to intensify diversification efforts is becoming more pressing as domestic demand for oil continues to rise at a breakneck pace. Part of the reason for the increase in Saudi crude output is to meet domestic demand during the summer months, when increased demand for air-conditioning requires that additional crude be diverted to feed domestic power stations. It is hoped that additional gas from the offshore Karan field will help to meet this demand, while alternative energy such as power and nuclear have moved up the authorities’ agenda, the report said.

#### Low energy prices stop renewable transition - two reasons:

#### a, encourages consumption

#### b. encourages future investment

Arab News, 11 ("Saudi Arabia's Coming Oil and Fiscal Challenge," July 19. accessed on 7/23/12 at: http://memrieconomicblog.org/bin/content.cgi?article=494)

The key reason for the rise in consumption is very low energy prices. Energy priced at such low levels does not encourage conservation or penalize inefficient use. Very low prices also necessitate high spending on the construction and maintenance of related facilities, such as water and power plants. Reform of domestic pricing policy is an important way to tackle the rising consumption of energy and improve the efficiency with which it is used.

## Other Scenarios

### Russia Scenario

### Russia Economy

### Uniqueness

#### **Crisis in Russia’s economy improves**

Economy Watch 11 [June 28, 2011, “Russia Economy” http://www.economywatch.com /world\_economy/russia/]

The global economic crisis hit Russia hard, which caused a crisis in its stock market. As the financial crisis gathered steam in the fall of 2008, the accompanying steep fall in global demand, commodity prices, and tightening of credit served to almost grind Russia’s economic growth to a halt in the fourth quarter of 2008, to 1.1%  down from 9.5% during the same period in 2007. By late 2009, however, the Russian economy had begun a modest recovery, bolstered by the government's anti-crisis policies, the global rebound, and the nearly 50% rise in oil prices over the course of the year. Russia’s leaders put renewed emphasis on promoting innovation as key to economic modernization as well as on the need to diversify the economy away from oil and gas. Russia is one of the most industrialized of the former Soviet republics. However, years of low investment have left much of Russian industry antiquated and highly inefficient. Besides its resource-based industries, it has developed large manufacturing capacities, notably in metals, food products, and transport equipment. Russia is now the world's third-largest exporter of steel and primary aluminum. Russia inherited most of the defense industrial base of the Soviet Union, so armaments remain an important export category for Russia. According to the 2010 U.S. Trade Representative's National Trade Estimate, Russia continues to maintain a number of barriers with respect to imports. Discussions continue within the context of Russia's WTO accession to eliminate these measures or modify them to be consistent with internationally accepted trade policy practices. Non-tariff barriers are frequently used to restrict foreign access to the market and are also a significant topic in Russia's WTO negotiations.

#### **Russia’s economy is worsening**

Bush 8 [Jason— BusinessWeek's Moscow bureau chief, Nov 19, 2008, “Russia's Economy: How Bad Will It Get?” [http://www.businessweek.com/globalbiz/content/ nov2008/vgb20081119\_ 658448.htm](http://www.businessweek.com/globalbiz/content/%20nov2008/vgb20081119_%20658448.htm)]

There's no denying it any longer. Russia's long economic boom is finally over.On Nov. 18 the World Bank became the latest organization to slash its forecast for Russia's gross domestic product growth next year, from 6.5% to just 3%. That came on the heels of the International Monetary Fund, which has also been scaling back its Russian GDP growth forecasts, most recently from 5.5% to 3.5%. Many experts are even gloomier, with some predicting that Russia's economy could actually go into recession next year."I see no way you can achieve 3% growth next year," says Anders Aslund, senior fellow at the Peterson Institute for International Economics in Washington. "We are seeing a rapid deterioration in everything: the banking system, real estate, construction, the metallurgical sector—and, of course, the oil price."Yet the severe impact of the global crisis on Russia's financial markets is becoming increasingly apparent. The banking sector is in turmoil, while the stock market has been among the worst affected in the world, losing 75% of its value in the past six months. The ruble has lost 17% of its value against the U.S. dollar since August. Even so, the true extent of Russia's economic problems is only now being acknowledged at an official level. "Today it is clear that the crisis is spreading, unfortunately from the financial sector into the sectors of the real economy," Russian President Dmitry Medvedev admitted on Nov. 18.

### Internal Link -- Economy

#### High oil prices are key to Russian economic stability

Forbes, 5-8-2012 (Adomanis, Mark, Staff writer for Forbes, Russia and Oil: A Likely Source of Future Stability, Forbes Magazine, <http://www.forbes.com/sites/markadomanis/2012/05/08/russia-and-oil-a-likely-source-of-future-stability/>)

Although the stories I’ve cited above are quite measured and restrained in their analysis and tone, many Western Russia experts, particularly those of a conservative persuasion, are highly skeptical of Russia’s economic future largely because of its continued over-reliance on oil. These people, by and large, think that today’s high oil prices are some sort of “accident” that will soon be rectified by increased Saudi production, domestic shale oil, Canadian oil sands, Brazilian offshore deposits, or some combination of all of these. Either way, these people think that the price of oil is going to come down, and that when it does Putin and his system will be in very serious trouble.¶ While conceding that Putin would be in a great deal of trouble if the oil price collapsed\*\*, I’m far more interested in whether this will happen. What does the [Energy](http://www.forbes.com/energy/) Information Administration (EIA), the statistical and analytical arm of the U.S. Department of Energy, think is going to happen? What are its forecasts for oil prices over the short and long terms? Does it forecast a sustained decrease in the price of oil? Well the EIA thinks that the 2012 price of oil will on average be about $11 higher than its 2011 price, while in 2013 the price will be “relatively flat” compared to its 2012 level. The is, of course, a forecast, so it’s not written in stone, but on balance the evidence seems to be that the most likely outcome is that Russia’s oil income will be stable for at least next several years. This, in turn, suggests that its economy will continue to grow in the 3-4% range: not mind-blowingly awesome, but hardly catastrophic.

#### High oil prices key to Russian economy and stability

Fedorova, 7-23 (Fedorova, Anna. Staff writer for Investment Europe. Investment Europe. Investment in Russian oil unaffected by Middle East, saya VTB. July 23, 2012. [http://www.investmenteurope.net/investment europe/news/2193547](http://www.investmenteurope.net/investment%20europe/news/2193547) /investment-in-russian-oil-unaffected-by-middle-east-says-vtb)

Higher oil prices do make the oil sector in Russia an attractive investment option, but uncertainty in the Middle East is not necessarily causing more capital flows into the industry, says Colin Smith, head of energy research at VTB Capital.¶ The price of Brent crude oil has been increasing since the beginning of the year, causing VTB to increase its 2012 forecast from $100/bbl to $105/bbl. The main impetus behind this growth is the continuing threat from Iran and Syria to close down access to the Strait of Hormuz, which acts as a passageway to a fifth of the world’s oil supply.¶ Around 14 crude oil tankers pass through the Strait each day on average, with a total of 17 million barrels on board according to estimates. This amounts to over a third of the world’s seaborne oil shipments. If the passage were closed, oil supply would be cut significantly and prices would be expected to shoot up.¶ Russia would benefit from such a turn of events, being the largest producer and exporter of oil in the world other than the Arab League. Half of its government budget is based on taxation of the oil and gas sector, so higher prices mean more political stability.¶ This may attract investors to the Russian oil and energy sectors, as they seek to profit from returns made by companies in the sector on the one hand and to prepare for the potential hike in prices.¶ Smith agrees that concerns over Iran “may increase the perceived attractiveness of Russia as a more politically stable partner with whom to do business.”

#### Russian economy will show stable growth if prices are above $60

RIA Novosti 10 [Oct 10, 2010, “Russian economy to show stable growth with oil price above $60 - Kudrin” http://en.rian.ru/business/20101010/160898404.html]

The Russian economy will demonstrate stable growth next year if global oil prices stay above $60 per barrel, Finance Minister Alexei Kudrin said on Sunday.

According to the Russian government's forecast, the price of Russia's Urals oil blend is expected to stay at the level of $75 per barrel in 2010 and 2011 and rise to $78 per barrel in 2012 and to $79 per barrel in 2013. The government's projections for Russia's federal budget in the next three years are based on the average annual price of $70 per barrel. According to data of the Russian Finance Ministry, the average price of Urals oil blend was $77.4 per barrel in September 2010 compared with $67.15 per barrel in September 2009.

Russian economy dependent on oil

Pirani 10 [researcher and journalist, senior research fellow, Oxford Institute for Energy studies, Simon, 05/10/10, “RUSSIAN ECONOMY: Russia's oil problem” <http://www.emergingmarkets.org/Article/2682714/RUSSIAN-ECONOMY-Russias-oil-problem.html>]

Russia’s recession was a devastating reminder of its dependence on oil. But breaking this dynamic while trying to entrench a recovery is proving difficult Russia has emerged from recession with rising domestic demand and sound finances, say the optimists, and oil wealth brought onshore will fund investment – including the kick-start to modernization that the government craves. The trouble is, say the sceptics, that the government’s plan to run a fiscal deficit up to 2015 could crowd out private investment, hold up infrastructure renewal and hobble growth. And with an oil price perhaps as high as $95 a barrel needed for Russia to break even, external factors could upset the whole applecart. There’s a consensus that Russia’s economy is recovering, albeit with difficulty, and will probably grow by 4–5% this year. But the scale of last year’s slump brought the category Brics (Brazil, Russia, India and China) into sharp relief, raising doubts over whether Russia deserved to be included: its GDP fell by 8%, while Brazil’s growth was flat and China’s (+8.7%) and India’s (+5.7%) roared on. The recession was a devastating reminder of Russia’s economic dependence on natural resources, mainly oil. And the differing interpretations of the recovery often rest on contrasting views about how easy it will be to escape that dependence. The enthusiasts focus on the fruit that government efforts to marshal oil funds to diversify the economy will bear. But the doubters worry that oil dependence will not be conquered without stronger policies to ensure sufficient private investment flows, properly targeted. Clemens Grafe, economist at UBS and firmly in the optimist camp, says fears that Russian domestic demand will fall behind that in the other Brics are “misplaced”. He argues that a structural shift in fiscal policy means that oil revenues were not just used for the 2008–09 crisis rescue package, but will be shifted onshore longer term, boosting domestic demand and investment. This shift, together with structurally lower inflation rates, means that private-sector savings and domestic leverage are likely to expand rapidly and drive the economy forward, he says. While Russia will continue to be dependent on volatile commodity prices, domestic savings will grow and interest rates can stay low, which will fuel “a trend growth rate significantly higher than that of the world economy”. Of course oil money coming onshore is itself no guarantee of progress: it depends how much of it is saved and invested. The news on household savings is all good, Grafe says. “Russia is now the highest saving country in Europe – a completely different place in that respect from what it was in the 1990s.” The volume of individual bank deposits grew by 27% in 2009 and by May 2010 exceeded 8 trillion roubles, according to a recent report by the National Agency of Financial Research. And at least part of the capital account inflows registered in the first half of 2010 was due to Russians changing euros into roubles, many of which then stayed in the banking system. But too much is still saved in other currencies, says Grafe: “Unless you get the money into the system in roubles, you’ll always be dependent on capital inflows.” The government’s ability to encourage investment – specifically, into innovation and infrastructure – is a key part of the argument. Natalia Orlova, chief economist at Alfa Bank in Moscow, is optimistic on this score. She points to the plans to create an international financial centre in Moscow and the renewed insistence by prime minister Vladimir Putin and president Dmitry Medvedev that Russia welcomes foreign investment. SELL-OFF The proposal to sell more than $20 billion of stakes in state-owned companies, made by the finance ministry in July and under discussion in government, is another good sign, Orlova says. “This is not really privatization. The stakes being sold will be under 50% of these companies, some under 20%, and the state will retain control when the free float is increased. “This is about the management of state companies. They need benchmarks of success and failure, and the market can provide a measure of efficiency.” Russia’s largest company, Gazprom, is 51% state owned and arguably already works like this. The sceptics do not generally disagree about the government’s aims of modernizing the economy and diversifying it away from natural resources. But they focus on the difficulties of doing so. Yaroslav Lissovolik, chief economist for Russia at Deutsche Bank, says the preponderance of social spending in last year’s budget – caused mainly by hefty increases in pensions and some public-sector wages that were planned long before the financial crisis – “inevitably comes at a cost”. Since there is no prospect of social spending being cut – particularly as politicians are already turning their minds to the 2012 elections – the current plans to reduce the budget deficit are bound to impact investment in infrastructure, says Lissovolik. “Even if the private sector has to do most of the actual work, public spending on infrastructure investment is needed to stimulate it,” he says. Higher fiscal deficits and higher state spending tend to produce higher interest rates, which further undermines the prospects of a private investment boom. The World Bank’s latest Russian Economic Report, released in June, is also cautious. “Crumbling infrastructure, especially in transport, could hamper the economy’s competitiveness and longer-term growth prospects,” it warns. And while criticizing governments for improving people’s living standards went out of fashion long ago in Washington, the report does note that the corollary of social spending is “greater rigidity” for the budget and “only modest increases in capital expenditures that will likely limit the impact on growth”. Zeljko Bogetic, the World Bank’s lead economist for Russia, says: “My own view is guardedly optimistic. If the fiscal adjustment is made, it can bounce back and grow at 3–4% a year after that. The point is: that’s not so great for a country with such tremendous needs in terms of infrastructure development and modernization. “That is why I worry more about the long term. If Russia wants to unlock sources of long-term growth, it needs to open up more aggressively.” Assuming that capital, labour and technology are the essentials, Bogetic says, capital “is not being replenished as it should”; Russia’s labour supply problems are well known; and the economy is “still not open enough” to develop technology at the necessary pace. The government, like many around the world, argues that mobilizing private-sector investment is the key – and its efforts cannot be written off. Lissovolik at Deutsche agrees. He points to impressive commitments by Cisco and Microsoft to put money into Skolkovo, Russia’s would-be silicon valley, and by Siemens both to participate in the high-tech development and to plough billions of dollars into the electricity industry. But the bottom line is that, while these efforts are being made, Russia remains heavily dependent on oil revenues, Lissovolik says. Medium term, Deutsche forecasts an oil price of $70–80 a barrel, which the Kremlin defines as a “comfort zone”. But “as long as prices are below $95, Russia will be running a budget deficit,” he says – underlining how the world has changed as a result of the crisis.

#### High oil prices key to Russian economy – revenue and biz con

DASHEVSKY 11 (former head of equities at uniCredit Securities, a research and derivative group in Russia, "The Russian economy and its oil," 5/24, http://rt.com/business/news/russia-economy-oil-rpice/)

RT: High oil prices have helped Russia’s budget but is the country too dependent on energy exports? SD: “Well the dependence has declined greatly in recent years, but I think the sad truth remains that, to a very significant degree, Russia’s budget revenues and overall fiscal health is still very dependent on the level of oil prices.” RT: How does the energy sector shape the Russian investment climate? SD: “Well, there are many ways how the events happening in the oil and gas sector influence what is happening in the broader economy. On the one hand this is the biggest source of cash flow generation in the country, so in a sense it’s the biggest source of investment funds, both for the companies, and for the government and also because oil companies invest very significant amounts of money every year, so the ability of Russian oil companies to spend money affects really the entire Russian economy – from transport companies to oil service companies to catering companies to local airlines – so it is still, despite the significant efforts to diversify the economy, it’s a very important source of investment funds.That’s kind of one angle, and another angle is what is happening in the Russian oil and gas sector, since it is the biggest sector in the economy, affects the general investment climate, from the kind of sentiment perspective.So, when something good happens like potentially was going to happen, BP-Rosneft deal, or if there are good events happening, new fields are being developed, new pipelines are being brought on-stream, that gives investor additional confidence that the economy is progressing very well, and people are investing money in it, and the whole country is open for business.Vice versa, if things are not going well, if deals are breaking up, if instead of going to work people going to courts against each other, that clearly creates a big drag on the investors sentiment for all of the Russian economy, not just oil and gas.”

### 2NC AT: Russian Dutch Disease

#### No Link and Turn: No risk of crowd out and oil money stimulates alternate sector growth

DASHEVSKY 11 (former head of equities at uniCredit Securities, a research and derivative group in Russia, "The Russian economy and its oil," 5/24, http://rt.com/business/news/russia-economy-oil-rpice/)

RT Do you think Russia has Dutch disease and how does energy reliance work in Russia with the import competing sector?

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

#### Russian economic collapse causes nuclear terrorism and extinction

FILGER 9 (Sheldon, renowned public intellectual and specialist in economic forecasting, "Russian economy faces disastrous free fall contraction," HuffPo, May 10, http://www.huffingtonpost.com/sheldon-filger/russian-economy-faces-dis\_b\_201147.html)

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.

### Loose Nukes Scenario

#### Russian economic collapse leads to loose nukes

Filger 9 [Sheldon, correspondent for the Huffington Post, “Russian  
Economy Faces Disastrous Free Fall Contraction,”  
<http://www.globaleconomiccrisis.com/blog/archives/356>]

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

#### Al-Queda planning nuclear attack

Forbes, 2011 ([Kanani](http://blogs.forbes.com/rahimkanani/), Rahim. Rahim Kanani is founder and editor-in-chief of [World Affairs Commentary](http://www.rahimkanani.com/). New al-Qaeda Chief Zawahiri Has Strong Nuclear Intent. Forbes. June 29, 2011. <http://www.forbes.com/sites/rahimkanani/2011/06/29/new-al-qaeda-chief-zawahiri-has-strong-nuclear-intent/>)

We should be especially worried about the threat of nuclear terrorism under Zawahiri’s leadership. In a recent report titled “[Islam and the Bomb: Religious Justification For and Against Nuclear Weapons](http://belfercenter.ksg.harvard.edu/files/uploads/Islam_and_the_Bomb-Final.pdf)”, which I researched for and contributed to, lead author Rolf Mowatt-Larssen, former director of intelligence and counterintelligence at the U.S. Department of Energy, argues that al-Qaeda’s WMD ambitions are stronger than ever. And that “this intent no longer feels theoretical, but operational.”¶ “I believe al-Qaeda is laying the groundwork for a large scale attack on the United States, possibly in the next year or two,” continues Mowatt-Larssen in the opening of the report issued earlier this year by the Belfer Center for Science and International Affairs at Harvard Kennedy School. “The attack may or may not involve the use of WMD, but there are signs that al-Qaeda is working on an event on a larger scale than the 9/11 attack.”¶ Most will readily dismiss such claims as implausible and unlikely, and we hope they are right, but after spending months with Mowatt-Larssen, who also served as the former head of the Central Intelligence Agency’s WMD and terrorism efforts, scrutinizing and cross-referencing Zawahiri’s 268-page treatise published in 2008 titled “[Exoneration](http://www.fas.org/irp/dni/osc/exoneration.pdf)”, the analytics steered us towards something far more remarkable than expected.¶

#### Zawahiri proves impending nuclear attack

Forbes, 2011 ([Kanani](http://blogs.forbes.com/rahimkanani/), Rahim. Rahim Kanani is founder and editor-in-chief of [World Affairs Commentary](http://www.rahimkanani.com/). New al-Qaeda Chief Zawahiri Has Strong Nuclear Intent. Forbes. June 29, 2011. <http://www.forbes.com/sites/rahimkanani/2011/06/29/new-al-qaeda-chief-zawahiri-has-strong-nuclear-intent/>)

“As I read the text closely, in the broader context of al-Qaeda’s past, my concerns grew that Zawahiri has written this treatise to play a part in the ritualistic process of preparing for an impending attack,” states Mowatt-Larssen. “As Osama bin Laden’s fatwa in 1998 foreshadowed the 9/11 attack, Ayman Zawahiri’s fatwa in 2008 may have started the clock ticking for al-Qaeda’s next large scale strike on America. If the pattern of al-Qaeda’s modus operandi holds true, we are in the middle of an attack cycle.”¶ Among several important findings, Zawahiri sophisticatedly weaves identical passages, sources and religious justifications for a nuclear terrorist attack against the United States previously penned by radical Saudi cleric Nasir al Fahd. Indeed, the language used, research cited, and arguments put forth are nothing short of detailed and deliberate. Reading as both a religious duty to kill millions of Americans and a lengthy suicide note together, this piece of literature is something we must take seriously with Zawahiri now at the helm of al-Qaeda. The time may have come for al-Qaeda’s new CEO to leave a legacy of his own.

### Russia Nationalism

#### Russia democratizing now

Antonova, 3-1 (Antonova, Natalia. Deputy Editor of The Moscow News. The Guardian. March 1, 2012. http://www.guardian.co.uk/commentisfree/2012/ mar/01/putin-election-russian-stability-over.)

In January, political expert Stanislav Belkovsky wrote on [OpenSpace.ru](http://www.openspace.ru/)that Russia is heading down the path of a second perestroika – and that Putin knows this, the man is no fool. Being in charge of a perestroika is a thankless business. As Belkovsky wisely noted, Soviet citizens did not suddenly gain new love and appreciation for their government when state censorship came to an end, for example. We can see a similar process taking place today – electoral reforms have been introduced in the wake of the protests, but are they placating the opposition? Hell, no.¶ Instead the opposition is growing more pragmatic. Leftwing opposition leader Sergei Udaltsov has shown willingness to work with the Communist party, whose presidential candidate, Gennady Zyuganov, is likely to come second in the polls. Udaltsov and his non-parliamentary Levy Front (Left Front) party would appear to be miles away from the pensioners who regularly turn up for Communist rallies – Udaltsov, for example, is a hardcore figure who nearly died recently when he went on a hunger strike after being illegally jailed – but Levy Front is committed to socialist ideals, and rumours have already started that Udaltsov is likely to replace the aging Zyuganov as the leader of the Communists following the elections.¶ Putin will still win, but as history taught us, popular anger is not likely to go away. It will continue growing. A part of me thinks that's a good thing, because this means that more people are becoming politically active. And a part of me is seriously worried about the potential for violence.¶ Last week, I came to Luzhniki Stadium in Moscow to witness a pro-Putin rally. The atmosphere was festive – and fairly apolitical, or so I felt. Some believe that the people who come out for pro-Putin rallies are exclusively paid-off agitators or government office drones who are forced by their bosses to attend – but I met a number of normal, cordial people who turned up because they combined their suspicions of the opposition, which they say is financed from abroad, with the desire to have a fun day out.¶ According to the IMF, real incomes in Russia rose 142% between 2002 and 2009. Under these conditions, a lot of people fear losing a leader like Putin, who presided over some genuine, wide-reaching gains. They fear the unknown.¶ But the unknown is upon us one way or another. People in Russia are starting to get used to coming out for rallies again – both opposition and loyalist ones. And the forces that shape this country's future are sizing each other up, doing the political equivalent of ["Come at me bro."](http://knowyourmeme.com/memes/come-at-me-bro)¶ The presidential election, in this sense, is a red herring. Political stability is over either way.

#### Russian economy key to political stability

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.

### AT: Aff solves the econ

#### Even if the plan stimulates economic growth - short dips in price magnify our link.

DECRESSIN, deputy director of research department at the IMF, 5/7/12 (Jorg, "Iran, Oil Prices, and the Global Economy," Carnegie Endowment for International Peace," carnegieendowment.org/files/0508carnegie-oil.pdf)

And it’s a supply that always responds only slowly. And because it responds slowly, yet demand can go up and down fairly quickly, you can have large swings in oil prices, right? And this is what we’ve experienced over the last couple of years. And the economy generally doesn’t like large sudden swings in oil prices. It copes with those much less well than with steady oil price changes. And this is a particular concern now because inventories are pretty low and spare capacity is also pretty low in the oil market.

## AFF: Non-Unique

### Oil Prices low

#### **Gasoline prices are not rising, the U.S. dollar is falling**

#### Woodhill 2-22-12 (Louis, contributor to Forbes, gasoline prices are not rising, the U.S. Dollar is Falling, <http://www.forbes.com/sites/louiswoodhill/2012/02/22/gasoline-prices-are-not-rising-the-dollar-is-falling/>)

Unfortunately, the talking heads that are trying to explain the reasons for high oil prices are missing one tiny detail. Oil prices aren’t high right now. In fact, they are unusually low. Gasoline prices would have to rise by another $0.65 to $0.75 per gallon from where they are now just to be “normal”. And, because gasoline prices are low right now, it is very likely that they are going to go up more—perhaps a lot more. In terms of judging whether the price of WTI is high or low, here is the price that truly matters: 0.0602 ounces of gold per barrel (which can be written as Au0.0602/bbl). What this number means is that, right now, a barrel of WTI has the same market value as 0.0602 ounces of gold. At Au0.0602/bbl, today’s WTI price is only 82% of its average over the past 41+ years. Assuming that gold prices remained at today’s $1,759.30/oz, WTI prices would have to rise by about 22%, to $128.86/bbl, in order to reach their long-term average in terms of gold. As mentioned earlier, such an increase would drive up retail gasoline prices by somewhere between $0.65 and $0.75 per gallon. At this point, we can be certain that, unless gold prices come down, gasoline prices are going to go up—by a lot. And, because the dollar is currently a floating, undefined, fiat currency, there is no inherent limit to how far the price of gold in dollars can rise, and therefore no ultimate ceiling on gasoline prices. Federal Reserve Chairman [Ben Bernanke](http://www.forbes.com/profile/ben-bernanke/) uses a “core CPI index” that excludes food and energy to guide monetary policy. From Big Ben’s point of view, rising gasoline prices are not a problem. For the rest of us, they are becoming a big problem. Over the centuries, gold has been “the golden constant”. Eventually, all prices equilibrate with gold. This is why gold represents the best available standard in terms of which to define the value of a monetary unit. Forty-one years ago, when the value of the dollar was defined in terms of gold at $35/oz, WTI was selling for $3.56/bbl. Right now, the threat posed by rising gasoline prices is not just to family budgets. An even greater danger is that the government will use escalating oil prices as an excuse to do something stupid. After President Nixon abrogated the Bretton Woods monetary arrangement in stages starting in September 1971, both gold prices and oil prices started to rise. The government responded by imposing wage-price controls. This made a bad situation much worse. controls. This made a bad situation much worse.

#### Oil had largest drop since June

Smith 7-23-12 (Grant, contributor to the Bloomsburg News, Oil drops most in a month as European debt turmoils, <http://www.bloomberg.com/news/2012-07-23/oil-drops-most-in-a-month-as-european-debt-turmoil-intensifies.html>)

Oil plunged the most in a month in New York amid renewed concern that [Europe](http://topics.bloomberg.com/europe/) is failing to resolve its sovereign debt crisis. Futures for September delivery tumbled as much as 4.2 percent as the euro dropped to an 11-year low against the yen and the cost of insuring Spanish debt surged to a record. International creditors meet in Athens tomorrow as concern grows that Greece may not meet its bailout targets. [Spain](http://topics.bloomberg.com/spain/)’s stock- market regulator banned trades to “constitute or increase net short positions on shares.” “The continuing saga of the euro, and in particular the travails of Spain and fears that this will soon be played out in France and Italy, is driving today’s sell-off,” said[Christopher Bellew](http://topics.bloomberg.com/christopher-bellew/), senior broker at Jefferies Bache Ltd. in London, who predicts further price losses may be limited. Crude for September delivery fell as much as $3.82 to $88.01 a barrel in electronic trading on the [New York Mercantile Exchange](http://topics.bloomberg.com/new-york-mercantile-exchange/) and was at $88.24 at 1:46 p.m. London time. Today’s 4.2 percent drop is its biggest intraday loss since June 21. Prices are 11 percent lower this year. Brent oil for September settlement on the London-based ICE Futures Europe exchange dropped as much as $4.41, or 4.1 percent, to $102.42 a barrel. The European benchmark crude was at a $14.60 premium to New York-traded West Texas Intermediate grade. The spread was $15 on July 20, the widest in four days

#### Oil Prices Drop by 4.2%

Biers 7-23-12 (John, contributer of the Wall Street Journal, Oil Prices Tumble 4.2%, <http://online.wsj.com/article/SB10000872396390444025204577544634253052276.html>)

The oil market fell sharply, turning away from worries about Iran and news of pipeline outages, on renewed concerns about the euro zone. Front-month oil futures settled fell 4.2% to settle at $88.14, while Brent crude futures traded down $3.54 at $103.29 a barrel. In ruminating about the euro-zone crisis, the market turned its eyes away from the Iran story, which dominated news last week, sending prices higher for seven days in a row. After the recent trading, Iranian geopolitical concerns "have been priced in and some stability in the Iranian risk factor is expected," said James Ritterbusch, president of the oil-trading advisory firm Ritterbusch & Associates, in a note. Mr. Ritterbusch said that while price lows had largely been reached, "we are also leaving open the chance of a significant price selloff that could easily negate as much as 80%-90% of this month's price advance within a 2-3 week time frame." John Kilduff, a trader at Again Capital expects oil to trade within the $82-$92 range. IAF Advisors' Kyle Cooper said the negative sentiment about the euro could send prices back down to the mid- or upper-$70 range if it persists. Front-month reformulated gasoline blendstock, or RBOB, settled at $2.883 a gallon, down six cents, while heating oil settled at $2.819 a gallon, down 10.54 cents.

### Oil Prices Volatile

#### Oil prices fluctuate

Mufson 11 [7/1, Steven, Washington Post, “The unpredictable forces behind oil prices”, http://www.washingtonpost.com/opinions/the-unpredictable-forces-behind-oil-prices/2011/06/30/AG3e27tH\_story.html]

For people who believe that oil markets are rigged or broken, the first week of May offered Exhibit A. That week, the price of crude oil plunged more than $16 a barrel, erasing about $32 billion of the market value of Exxon Mobil and presaging an easing of [prices at the pump](http://www.washingtonpost.com/opinions/five-myths-about-gas-prices/2011/03/18/ABaUtbQB_story.html), where the cost of a gallon of gas had hit record levels. On that Thursday alone, the price of oil fell off a cliff, tumbling more than $10 a barrel. Yet the physical amount of oil in the market didn’t change that week. Libya’s oil exports had been offline for more than two months. In the oil world, the surface was relatively calm. But a couple of signs of economic weakness spooked traders, who suddenly worried that demand would be less than they had expected. Goldman Sachs, a believer in rising crude oil prices, predicted a temporary pullback. Poof! More than a tenth of the value of a barrel of oil disappeared. For consumers, oil prices are like a bad case of malaria — feverish one month and tolerable another. Such wild fluctuation makes it nearly impossible to discern: What is the right price for oil? Today’s crude oil prices are nearly 10 times as high as they were in 1998, and twice as high as in 2005. They hit a record of $147 a barrel in July 2008, only to sink to less than $40 a barrel by the end of that year. In March, amid [intense fighting in Libya](http://www.washingtonpost.com/wp-srv/special/world/libya-uprising/), President Obama said that there wasn’t a serious supply shortage and that rising oil prices weren’t reason enough to tap the nation’s Strategic Petroleum Reserve. Then on June 23, he suddenly said that [turmoil in Libya](http://www.washingtonpost.com/business/economy/for_oil_companies_upheaval_in_arab_world_japan_means_a_gusher/2011/03/31/AFrxX8kC_story.html?nav=emailpage) justified the [largest-ever release of reserves.](http://www.washingtonpost.com/business/economy/us-allies-to-release-60m-barrels-from-oil-reserves/2011/06/23/AGhcVKhH_story.html) It was more of an economic stimulus than a national security measure. Because oil prices [fluctuate so much](http://www.washingtonpost.com/wp-dyn/content/article/2011/03/02/AR2011030206126.html), however, it will be impossible to measure Obama’s success or failure. If prices continue to drop, as they were doing before his move, will he deserve credit? If they rise, will he deserve blame? If it works, will we want him to do it again? That will come down to the question of price. In a competitive market, the price of oil would be linked to the marginal cost of the next barrel. In other words, the price for the first 88 barrels would be affected by the cost of producing the 89th barrel, in effect the cost of replacing each barrel used. But in the world of oil, it’s hard to say what that replacement cost is. Producing oil is not like churning out computer chips, where costs are similar everywhere. In Canada, it costs somewhere between $40 and $60 a barrel to mine and melt the viscous goo known as tar sands that environmentalists would rather leave in the ground. Yet in the Gulf of Mexico, where giant drilling rigs plumb deep waters, the cost of finding and developing oilfields can be relatively modest. Chevron, for example, has a $7.5 billion platform that will tap into a half-billion-barrel field at an average cost of about $15 a barrel. In Iraq, it’s even cheaper. The country has giant, shallow fields as good as almost anything in Saudi Arabia. In some places, you could practically stick a spear in the ground and come up with oil. Those neglected fields are being rehabilitated — if fighting can stop long enough. And that’s the thing: There is no free market. There are obstacles everywhere. Pipelines. Politics. [Oil spills.](http://www.washingtonpost.com/wp-srv/gulf-coast-oil-spill/) Warfare. They make it hard to figure out a marginal price for the next barrel of oil because it’s not clear whether the cheapest barrel can get anywhere near a tanker, refinery or consumer. Then there’s the demand side, where needs and habits are so ingrained that we don’t respond quickly to rising prices. Buying oil isn’t like buying fruit: If an apple costs too much, buy an orange. If your gas costs too much, there isn’t much choice for most Americans who need to get to work. As a result, a relatively small percentage change in world supplies can upend the whole balance — and price.

#### Oil prices are volatile and will remain that way

McNally 12, Robert McNally January 2012 He has previously served as an oil market analyst with Energy Security Analysis, a market and policy analyst for Tudor Investment Corporation, special assistant to the president on the National Economic Council, and senior director for international energy on the National Security Council, (Managing Oil Market Disruption in a Confrontation with Iran, Council on Foreign Relations, http://www.cfr.org/iran/managing-oil-market-disruption-confrontation-iran/p27171)

Moreover, the 5 percent spare capacity rule of thumb applies best when geopolitical conditions are calm, as they were through most of the 1990s, when OPEC’s spare capacity was about 5 percent and oil prices were relatively stable. Since 2003, however, OPEC’s spare capacity has been low and geopolitical disruption risks (including Iraq, Nigeria, Venezuela, Yemen, and Libya) have been high. Consequently, oil prices have been high and volatile. Given current and threatened disruptions, OPEC will need to hold more than 5 percent to reassure traders and stabilize prices. Achieving that comfort margin, however, is unlikely in the foreseeable future. 2 Escalating geopolitical tensions with Iran compound these vulnerabilities. Tehran poses a credible, if only short-term, threat to the 17 mb/d produced in and shipped from the gulf, which dwarfs OPEC’s spare capacity, all of which is in any case located north of the Strait of Hormuz.

#### Prices spikes inevitable: Economy and supply

Tverberg 12(Gail, July 10, 2012, graduated St. Oaf Collage with BS in mathematics, MS in mathematics from Illinios colledge, member of Causulty article society, is a member of American Academy of Actuaries, Much of her early career was spent with CNA Insurance Companies in Chicago, Illinois. There she was involved in both pricing and reserving of casualty insurance coverages. Her later career was spent with the Tillinghast business of Towers Perrin in Atlanta. At Towers Perrin, she performed consulting services, primarily for organizations writing medical malpractice insurance. Ms. Tverberg began writing articles on finite world issues in early 2006., Do plummeting oil prices indicate a coming global recession?, Alaska Dispatch , http://www.alaskadispatch.com/article/do-plummeting-oil-prices-indicate-coming-global-recession)

Are lower oil prices good news? Not really, if it means the world is sinking into recession. We know from recent experience and common sense that high oil prices are a drag on oil importing economies, because more money spent on the same amount of oil leaves less to spend on discretionary goods and services. In addition, oil money sent to oil exporting countries is likely to be spent within those economies, rather than being reinvested in the oil importing country. A rough calculation indicates that the combination of European Union countries, the United States and Japan spent a little over $1 trillion dollars in oil imports in 2011, roughly the same amount as in 2008. Governments have been running up huge deficits and have been keeping interest rates very low to cover up this damage, but it is hard to make this strategy work. The deficit soon becomes unmanageable, as several European countries have recently discovered. The U.S. government is facing automatic spending cuts as of Jan. 2, 2013, because of its continuing deficits. Furthermore, lower interest rates aren’t entirely beneficial. With low interest rates, pension funds need much larger employer contributions if they are to make good on their promises. Retirees who depend on interest income to supplement Social Security find themselves with less income. The lower interest rates don’t necessarily stimulate the economy, either, if buyers don’t have sufficient discretionary income. Here are a few reasons why low oil prices may be a signal that the world is headed for deep recession. 1, Oil supply not rising enough. The big issue is that oil supply is not rising enough -- and hasn’t been for a long time. When oil supply doesn’t rise fast enough, two opposite effects can take place: Prices will go higher. This can be seen in the upward trend in prices in the last eight years. Prices can drop quite sharply, as they did in late 2008. This happens when parts of the world are entering recession, and their demand decreases. This second effect may be happening this time around. The downturn we are seeing in prices may have farther to go as the recession plays out.

### Production decreasing

#### OPEC production down due to sanctions

Saefong, 7-9 (Saefong, Myra. Market Watch Wall Street Journal. Market Watch. July 9, 2012. http://articles.marketwatch.com/2012-07-09/markets/32599396\_1\_iranian-output-opec-countries-barrels-per-day.)

Oil production from the Organization of the Petroleum Exporting Countries slipped by 30,000 barrels per day in June from a month earlier on the back of a 150,000 barrels-per-day drop in Iranian output, according to a Platts survey of OPEC and oil industry officials and analysts released Monday. The survey showed that total OPEC production averaged 31.72 million barrels per day in June, from an estimated 31.75 million in May. The survey estimated that Iranian output dropped to 3.1 million barrels per day in June. "The number that no survey can fully know is how much of Iran's output is going into storage because sanctions, notably the EU sanctions on shipping, which have really hit Iran's exports," said John Kingston, Platts global director of news, in a statement. "The drop in Iran's sales is far greater than the drop in its output," he said. "So for now at least, the market is well-supplied, with all other OPEC countries aside from Iran producing a net increase from last month, and with the Iranians socking away a lot of oil that will ultimately find its way on the market."

### Oil Shocks

#### Oil shocks inevitable: Low supply and disruptions

The Economist, 3-10 (The Economist. The new grease? How to assess the risk of a 2012 oil shock. The Economist. March 10, 2012. <http://www.economist.com> /node/21549949

Central banks may have affected oil indirectly, by raising global growth prospects, which in turn buoy expectations for oil demand. Circumstantial evidence supports this thesis. The recent rise in oil prices has coincided with greater optimism about the world economy: a euro-zone catastrophe and a hard landing in China both appear less likely and America's recovery seems on stronger ground.¶ But slightly rosier growth prospects are only part of the story. A more important driver of dearer oil has been disruptions in supply. All told, the oil market has probably lost more than 1m barrels a day (b/d) of supply in recent months. A variety of non-Iranian troubles, from a pipeline dispute with South Sudan to mechanical problems in the North Sea, have knocked some 700,000 b/d off supply. Another 500,000 b/d or so of Iranian oil is temporarily off the market thanks both to the effects of European sanctions and a payment dispute with China.¶ The cushion of spare supply is thin. Oil stocks in rich countries are at a five-year low. The extent of OPEC's spare capacity is uncertain. Saudi Arabia is pumping some 10m b/d, a near-record high (see chart 1). And there is the threat of far bigger supply disruptions if Iran were ever to carry out its threat to close the Strait of Hormuz, through which 17m barrels of oil pass every day, some 20% of global supply. Even a temporary closure would imply a disruption to dwarf any previous oil shock. The 1973 Arab oil embargo, for instance, involved less than 5m b/d.

#### Oil price spikes collapse the economy.

Tverberg 12(Gail, July 10, 2012, graduated St. Oaf Collage with BS in mathematics, MS in mathematics from Illinios colledge, member of Causulty article society, is a member of American Academy of Actuaries, Much of her early career was spent with CNA Insurance Companies in Chicago, Illinois. There she was involved in both pricing and reserving of casualty insurance coverages. Her later career was spent with the Tillinghast business of Towers Perrin in Atlanta. At Towers Perrin, she performed consulting services, primarily for organizations writing medical malpractice insurance. Ms. Tverberg began writing articles on finite world issues in early 2006., Do plummeting oil prices indicate a coming global recession?, Alaska Dispatch , http://www.alaskadispatch.com/article/do-plummeting-oil-prices-indicate-coming-global-recession)

We keep reading articles claiming that world oil production will grow by some large amount by some future date. One of the latest of these is by Harvard Kennedy School researcher (and former oil company executive) Leonardo Maugeri, called Oil: The Next Revolution. According to the report, “Oil production capacity is surging in the United States and several other countries at such a fast pace that global oil output capacity is likely to grow by nearly 20 percent by 2020, which could prompt a plunge or even a collapse in oil prices.” Even if the forecast were true (which I am doubtful), the problem is that this is simply too late. We have been having oil-supply problems for some time -- since the 1970s. The rate of oil supply growth keeps ratcheting downward, and the world keeps trying to adapt, with recessions to show for its efforts. Some believe 10 of the 11 most recent recessions were associated with oil price spikes. We don’t have time to wait until 2020 to see whether the supposed additional capacity (and production) will actually materialize. We have a problem right now. The downturn in oil prices and the reduction in demand in the U.S. and parts of Europe is looking more and more like it may give rise to yet another recession. Based on our experience in 2008-2009, and our difficulties since then, this recession may be severe.

### No Unique Link

#### Already transitioning to fuel efficient vehicles.

Financial News 12, July 23, 2012 an updated daily website version of The Financial News, owned by Dow & Jones Company, (Oil shocker: one day its value may plunge) http://www.efinancialnews.com/story/2012-07-23/oil-shocker-one-day-its-value-may- plunge. ejj

Arab oil exporters shut off the oil pumps in October 1973 in protest at US support for Israel during its war with Egypt. During the six months of the embargo, the price of oil quadrupled, causing chaos through western economies as people queued to fill their cars.A second shock occurred at the end of the decade, when oil worker strikes during the Islamic Revolution in Iran resulted in a big fall in exports from the country, while the outbreak of the Gulf War in 1990 sent oil prices up 80%.¶ The importance of geopolitics in thinking about oil investing today is no less marked. The Libyan crisis last year sent prices up to nearly $130 a barrel and the trends spike skyward with every hint of sabre-rattling between Israel and Iran.¶ Colin O’Shea, head of commodities at Hermes Fund Managers, said that the 1970s show the dangers of relatively limited sources of supply for oil, but also noted that there are additional problems for modern investors.¶ He said: “What affects whether there is a price spike is the level of oil inventory at the time when supply becomes suddenly constricted. One of the biggest issues today is that the oil stock is much, much lower than it has been historically “The result is that, if you have a supply shock occur like that, which has happened in the past, another 1970s, we could see a scarily bigger price shock. Oil could drive a long way through its previous highs, even through $200 a barrel.”¶ Brent crude was trading at just over $100 a barrel at the end of last week.¶ However, one aspect of the 1970s oil shocks might hold some comfort for policymakers – and a warning for those betting on rising prices.¶ The experience encouraged consumers to turn to smaller, more fuel-efficient cars in the early 1980s, as Japanese manufacturers took market share from the oil-hungry US car firms. Neither is the position of oil as the world’s pre-eminent energy source of especially long vintage. In 1861, according to Bank of America Merrill Lynch, oil was trading at just 49 cents a barrel, its all-time low. The relatively low cost of oil at the time reflects not only plentiful, easily accessible supplies, but also the fact that coal remained the primary source of energy for industry and transport.¶ The Royal Navy, a relatively early adopter, did not even begin using oil to power its ships until the first decade of the twentieth century.¶ When Winston Churchill took over the Admiralty in 1911, coal remained the primary fuel for much of Britain’s fleet, supplanted by oil at the end of the Great War in 1918, according to Erik Dahl of the US Naval War College.¶ ¶ British industry was even slower to replace coal with oil. The reason, ultimately, was price. Before the early twentieth century, coal miners in Wales and the north of England were still able to feed British industry cheaply and efficiently. Given the dramatic increase in gas supply due to the development of hydraulic fracturing, or “fracking”, technology, consumers may yet move on from oil in the long term. O’Shea at Hermes said: “The US especially will move towards natural gas usage over the next few years. We’re already seeing replacement of oil in some places.¶ The New York bus fleet, for example, now runs on natural gas, and there’s likely to be movement in that direction in the trucking industry too.

**Obama moving away from fuel dependence.**

**Shogren** **January 24**, 2012 (Elizabeth Shogren is an NPR News Science Desk correspondent focused on covering environment and energy issues and news. Prior to NPR, Shogren spent 14 years as a reporter on a variety of beats at The Los Angeles Times, including four years reporting on environmental issues in Washington, D.C., and across the country <http://www.npr.org/2012/01/24/145719179/foreign-oil-imports-drop-as-u-s-drilling-ramps-up> “Foreign Oil Imports Drop As U.S. Drilling Ramps Up” accessed July 26, 2012)

Since President Obama took office, the U.S. has made considerable progress in overcoming a problem that has bedeviled presidents since Richard Nixon — dependence on foreign oil. When U.S. oil dependence peaked at 60 percent in 2005, then-President George W. Bush said the country had a serious problem and was "addicted to oil." Oil imports were down to 49 percent in 2010, and the Energy Information Agency predicted Tuesday that imports would drop to 36 percent by 2035. "Reliance on imported petroleum we expect to decline dramatically over the next 20 years," says Howard Gruenspecht, acting administrator of the Energy Information Agency. By 2035, the U.S. Energy Information Agency expects the U.S. will only need to import 36 percent of its oil. This reflects in part the fact that after decades of decline, U.S. oil production started posting gains in recent years. The Energy Information Agency predicted the increase will continue, and by 2020, the oil production rate would be up 11 percent to 6.7 million barrels per day.

#### AFF – The United States demand will decrease – Domestic oil production and vehicle efficiency standards

Weiss 3/27 (Daniel J., Senior Fellow Center for American Progress Action Fund, JOBS AND GASOLINE PRICES:; COMMITTEE: HOUSE NATURAL RESOURCES, Congressional Testimony, 3/27/2012)

EIA's latest projections found that the United States will import less oil thanks to the aforementioned oil production and greater vehicle efficiency not including the proposed 2017-2025 fuel economy standards. U.S. dependence on imported petroleum liquids declines in the AEO2012 Reference case, primarily as a result of growth in domestic oil production by more than 1 million barrels per day by 2020; an increase in biofuels use to more than 1 million barrels per day crude oil equivalent by 2024; and modest growth in transportation sector demand through 2035. Proposed fuel economy standards covering vehicle model years 2017 through 2025 that are not included in the Refer-ence case would further reduce projected liquids use and the need for liquids imports. The rescue of General Motors and Chrysler, initiated by former President George W. Bush and completed by President Obama, saved 1 million jobs. In addition, the restructuring of these companies led them to develop and manufacture more fuel-efficient models attractive to drivers, particularly when gasoline prices are high. The New York Times reported that the auto companies continue to prosper despite high gasoline prices. "Our product portfolio now contains some of the most fuel- efficient vehicles in our company's history," Reid Bigland, the head of United States sales for Chrysler, said in a statement. "A few years ago, higher fuel prices were a major threat to our total vehicle sales, whereas today, those higher prices have become far less of an issue."

### Renewables now

#### China shifting away from oil and investing more in renewable resources and paving way with other nations close behind.

Frank Jordans 6/11/2012 (Frank Jordans Associated Press reporter in Berlin, Germany. “China topped USA in renewable energy investment in 2011” < http://www.usatoday.com/money/industries/energy/story/2012-06-11/Renewable-energy-investment/55517876/1> accessed July 22, 2012)

Global investment in renewable energy reached a record $257 billion last year, with solar attracting more than half the total, according to a U.N. report released Monday. China topped the U.S. in renewable energy investment last year with $52 billion. Windmills operate at the Da Bancheng Wind Farm in Xinjiang, China, in this file photo.Investment in solar energy surged to $147 billion in 2011, a year-on-year increase of 52% thanks to strong demand for rooftop photovoltaic installations in Germany, Italy, China and Britain. China was responsible for almost a fifth of the total investment volume, spending $52 billion on renewable energy last year. The United States was close behind with investments of $51 billion, as developers sought to benefit from government incentive programs before they expired. Germany, Italy and India rounded out the top five

#### Nations around the world are trying to shift to renewable energy

Frank Jordans 6/11/2012 (Frank Jordans Associated Press reporter in Berlin, Germany. “China topped USA in renewable energy investment in 2011” < http://www.usatoday.com/money/industries/energy/story/2012-06-11/Renewable-energy-investment/55517876/1> accessed July 22, 2012)

**The U.N. report claims that solar panels installed in Germany, Italy, Spain, Denmark and Australia can now compete with the retail cost of electricity in those countries,** even as government subsidies are lowered. It noted that **developing countries are also exploring the use of renewable energy other than hydropower**, which has long been a popular source in poor countries. **Nations in East Africa are seeking to take advantage of** abundant geothermal capacity in the Rift Valley. Kenya aims to meet half of its electricity needs with **geothermal power by 2018. Djibouti, Eritrea, Rwanda, Tanzania and Uganda are also exploring geothermal use.**

#### New investment in renewables now.

**Harvey, 11 June** 2012 (Fiona Harvey environment correspondent guardian.co.uk, ”Global investment in renewable energy at record high” <http://www.guardian.co.uk/environment/2012/jun/11/renewable-energy-global-investment-solar-power> accessed July 23, 2012)

**Global investment in renewable energy surged to a new high last year, despite the widespread recession.** But experts warned that the rate of growth was showing signs of slowing, and would need to speed up if the world's economies are to be transformed on to a low-carbon footing**. Last year, investment in renewable energy reached $257bn** (£165bn), a rise of 17% on the previous year. **The record investment was a six-fold increase on the 2004 figure** and nearly double the total in 2007, the year before the world financial crisis, **according to a report from** the United Nations Environment Programme **(UNEP**) and the Renewable Energy Policy Network for the 21st Century (REN21).

#### Renewable energy is growing and catching up to fossil fuels.

Frank Jordans 6/11/2012 (Frank Jordans Associated Press reporter in Berlin, Germany. “China topped USA in renewable energy investment in 2011” < http://www.usatoday.com/money/industries/energy/story/2012-06-11/Renewable-energy-investment/55517876/1> accessed July 22, 2012)

Wind power investment slipped 12% to $84 billion due to uncertainty about energy policy in Europe and fewer new installations in China, according to the report. **Overall investment in renewable energy grew 17%**, a slowdown from the 37% increase in 2010. Still, **the head of the U.N. Environment Program claimed the latest figures are an indication that renewable energy is drawing level with fossil fuels in some markets. "These trends are real, they are substantive and they are transformative,**" Achim Steiner told reporters in a conference call. **The U.N. is hoping that countries will use an environmental summit in Rio de Janeiro, Brazil, next week to commit to further investments in renewable energy**, which covered just 16.7% of global energy consumption in 2010. Of this share, modern technologies such as solar and wind accounted for just 8.2%, less than the 8.5% contributed by biomass.

### Russia unstable now

#### Russia is unstable now and regressing further than any past progress.

#### FT.com 12, Financial Times.com, May 15, 2012, one of the world's leading business news and information organizations, (Russian economy defies predictions), <http://www.ft.com/cms/s/0/9dbc016e-9eaf-11e1-9cc8-00144feabdc0.html#ixzz21UKqTR6Q>.

Russia’s economy grew 4.9 per cent year on year in the first quarter, defying expectations that a cooling global economy would sap growth. Rostat, the Federal State Statistics Service, did not provide a breakdown of the figure, but so far this year the economy has been driven by consumer spending. Government expenditure before parliamentary and presidential elections, as well as residual post-crisis economic stimulus spending, was mainly responsible for the surge in consumption, which grew at a robust annual rate of 7-8 per cent in the first months of the year. However, analysts expect the worsening global economic climate to begin to have an effect this year. Oil prices have fallen and Russia’s stock market has slumped 20 per cent since March, erasing its gains over the year. Capital flight also surged in the first quarter, totalling $35.1bn, compared with about $80bn in 2011. This was blamed partly on political instability in the run-up to the March 4 elections. During the election campaign, Vladimir Putin, president, promised a spending programme to the tune of trillions of roubles, which threatens to increase Russia’s budget deficit should all the promises be met. The growth figure for the first quarter of 2012 – which is subject to revision in June – beat most analysts’ forecasts and came in slightly higher than the 4.8 per cent year-on-year expansion recorded in the fourth quarter of 2011. Elvira Nabiullina, economy minister, last month estimated first-quarter growth of 4 per cent. This year, Russia has outperformed pessimistic predictions of growth in 2012. The International Monetary Fund last month revised upwards a January forecast of 3.3 per cent annual growth in 2012 to say Russia would grow at 4 per cent this year. It also said it expected the economy to expand 3.9 per cent in 2013, having earlier forecast growth of 3.5 per cent.

### Decrease demand Now

#### Doesn’t matter if we stop buying oil from the Middle East

**Weismann 6/27 –** Jordan Weismann, 6/27/2012, associate editor at the Atlantic, Doesn’t matter if we stop buying oil from the Middle East, The Atlantic.

**There are many, many things that influence the price we pay for a barrel of oil.** **Terrorists. Weather**. What people think might be happening inside China's black box of an economy. The whims of the Saudi royal family.**Here's something that doesn't much affect it, though: Where the oil comes from**. Crude trades on an amazingly liquid international market, where price is determined by supply and demand across the globe. Unlike fine wine or cigars, buyers have no reason to care about oil's provenance. Hence, there really isn't much to be excited about in the news that the **United States may be weaning itself off Middle Eastern oil**, as reported in today's Wall Street Journal. **The** paper tells us that **rapidly expanding U.S. production, along with new resources** in Canada and Brazil, **may one day make our reliance on OPEC oil a relic of history.** Here's the core of the story: **By 2020, nearly half of the crude oil America consumes will be produced at home**, while 82% will come from this side of the Atlantic, **according to the U.S. Energy Information Administration. By 2035, oil shipments from the Middle East to North America "could almost be nonexistent,"** the Organization of Petroleum Exporting Countries recently predicted, partly **because more efficient car engines and a growing supply of renewable fuel** will help curb demand. The change achieves a long-sought goal of U.S. policy-making: to draw more oil from nearby, stable sources and less from a volatile region half a world away. "Whereas at one point there were real and serious concerns about the ability to maintain sustainable access of supplies to the United States if there were disruptions in the Middle East, that has changed," Carlos Pascual, the top energy official at the State Department, said in an interview.Let's take a moment to unpack what Pascual is actually saying. At one point, Washington policy-makers were worried that if there were a catastrophic event that crippled Middle Eastern production (think revolution in Saudi Arabia), we might not be able to get all the oil we needed. Now, we're supposedly protected should disaster strike. Except that we're not. We would still have to pay a massive premium for whatever oil was coming out of the ground in North Dakota or Texas. Otherwise, the private companies drilling it up there would sell it to some other desperate country. Don't get me wrong -- there are positive developments about our drilling boom. **Expanded North American production is helping to keep a lid on crude prices. Oil drilling regions here at home are experiencing a boom. And importing less crude will improve our trade balance.** But saying goodbye to Saudi oil is not some sort of geopolitical panacea that will absolve us of our need to be involved in the Middle East. Nor does it mean we will be paying appreciably less to fill up our gas tanks. The ripple effects of whatever happens to production around the Gulf region will influence the price of oil in North Dakota, so long as there are still tankers to ferry crude around the world. Saying we could be oil independent is just a nice way of saying we'll still be oil dependent. The only way to fix that problem is to reduce our need for crude, regardless of where it comes from. Thankfully, that's already begun happening. Part of the reason **the United States has been able to shift away from Middle Eastern oil is that we've restrained demand here at home by driving less and using more efficient vehicles while also producing more biofuels**. That process of substituting away from oil is what we should be celebrating. Not the fact that we might be buying it in house, or from a friendlier country.

## No Link

### US not Key: China

**China is key to the global oil market and plans on becoming more dominant in the crude oil demand**

**Areddy July 2, 2012** (James T. Areddy is a US consulate in shanghai, and publishes articles for the WSJ, “China seeks Oil Pricing Power”, <http://blogs.wsj.com/chinarealtime/2012/07/02/china-seeks-oil-pricing-power/>)

**China is increasingly central to world trade in crude oil.** But **the No. 2 consumer of crude oil** - 11.4% of the global total last year according to BP PLC figures- is frustrated it doesn’t have a bigger role in a key aspect of the trade: thecommodity futures trading that dictates market prices.Beijing hopes to change that as it seeks what authorities call pricing power. **China’s government has said for some time it plans to launch trading in crude oil futures, the commodity derivative contracts used to set benchmark prices for oil. Authorities recently indicated the contracts could be launched as soon as this year.** Beijing hopes they will compete with the West Texas Intermediate futures traded in New York and London’s Brent futures. A top China Securities Regulatory Commission official on Saturday kept the talk alive. ”**Even now, crude oil is fully geared up**,” said Peng Junheng, the commission’s deputy director of futures. Mr. Peng, who was speaking on the final day of Shanghai’s Liujiazui Forum, offered no timetable. **He and other speakers on a panel about commodities made clear the reason China is eager to pursue crude oil futures trading: pricing power**. ”A lot of work has to be done before we become a price setter for the world, which is our goal,” according to Mr. Peng’s translated comments. The worry in China is that traders in other markets who may have little appreciation for economic dynamics in China dictate what China pays for commodities. That has become a major issue amid a surge in commodity prices over the past decade. To provide a recognized Chinese price for commodities, authorities have worked hard to build credible commodity futures markets. There are now 28 products traded on the country’s markets. **Trading volume has surged over the years, with a particularly important contract on the Shanghai Futures Exchange** in copper – a metal sometimes described as an economic bellwether. Still, the markets have limits. To protect Beijing’s ability to control its currency, China’s futures markets are virtually closed to outsiders and its domestic traders don’t have easy access to international markets. Speculation from individual traders is rife. That makes its contracts less than credible as the global price for the agricultural, energy and metals products trade in China. None of this was lost of the panelists Saturday, and several agreed that the more China’s currency system is relaxed, the more credible its commodity markets will become. “**The price that is found in the domestic market does not reflect global demand,** aside from copper,” said Zhao Lei, president of Citic Newedge Futures Co., speaking about commodity futures in general. “That’s why China has hardly determined the price.” Mr. Zhao cited a “price determination ratio” for China in crude oil of 9%, meaning that 91% of the price of oil is set by market forces unrelated to China. He said the figure came from research he had read and was unable to provide more details. But his point was echoed by other panelists, who said China doesn’t have enough power with pricing. **Where once China worried about how it would actually find supplies of commodities around the world to satisfy its people and growing economy**, said Ma Wensheng, chairman of Xinhu Futures Co., the risk today is price. ”When **the oil futures launch China will gradually increase its influence in the oil price setting**, and I’m also confident this will help boost the Chinese economy,” said Mr. Ma.

#### China key to global oil market

Shai Oster and Spencer SWARTZ July 18, 2010 (Shai Oster is an American journalist, Hong Kong based correspondent for Bloomberg. He has won several awards in more than a decade as a journalist in China, Europe, and the U.S., writing about a broad range of economic, business and social issues. Spencer Swartz is Vice President and Associate Director, Energy and Sustainability Practice at Fleishman Hillard Past: Regulatory affairs adviser at Neste Oil Corp, Senior OPEC Correspondent at The Wall Street Journal, Correspondent, energy, technology and general. “China Tops U.S. in Energy Use” <http://online.wsj.com/article/SB10001424052748703720504575376712353150310.html> accessed July 23, 2012)

China has passed the U.S. to become the world's biggest energy consumer, according to new data from the International Energy Agency, a milestone that reflects both China's decades-long burst of economic growth and its rapidly expanding clout as an industrial giant. China's ascent marks "a new age in the history of energy," IEA chief economist Fatih Birol said in an interview. The country's surging appetite has transformed global energy markets and propped up prices of oil and coal in recent years, and its continued growth stands to have long-term implications for U.S. energy security. The Paris-based IEA, energy adviser to most of the world's biggest economies, said China consumed 2.252 billion tons of oil equivalent last year, about 4% more than the U.S., which burned through 2.170 billion tons of oil equivalent. The oil-equivalent metric represents all forms of energy consumed, including crude oil, nuclear power, coal, natural gas and renewable sources such as hydropower.

#### China consumption sustains high oil prices

Shai Oster and Spencer SWARTZ July 18, 2010 (Shai Oster is an American journalist, Hong Kong based correspondent for Bloomberg. He has won several awards in more than a decade as a journalist in China, Europe, and the U.S., writing about a broad range of economic, business and social issues. Spencer Swartz is Vice President and Associate Director, Energy and Sustainability Practice at Fleishman Hillard Past: Regulatory affairs adviser at Neste Oil Corp, Senior OPEC Correspondent at The Wall Street Journal, Correspondent, energy, technology and general. “China Tops U.S. in Energy Use” <http://online.wsj.com/article/SB10001424052748703720504575376712353150310.html> accessed July 23, 2012)

China's growth has transformed global energy markets and sustained higher prices for everything from oil to uranium and other natural resources that the country has been consuming. Once, China was a major exporter of both oil and coal. Its increasing reliance on imports has sustained higher energy prices worldwide and underpinned a natural-resource boom in Africa, the Middle East and Australia.

#### China’s untamed demand leverages global geopolitics in it favor

Shai Oster and Spencer SWARTZ July 18, 2010 (Shai Oster is an American journalist, Hong Kong based correspondent for Bloomberg. He has won several awards in more than a decade as a journalist in China, Europe, and the U.S., writing about a broad range of economic, business and social issues. Spencer Swartz is Vice President and Associate Director, Energy and Sustainability Practice at Fleishman Hillard Past: Regulatory affairs adviser at Neste Oil Corp, Senior OPEC Correspondent at The Wall Street Journal, Correspondent, energy, technology and general. “China Tops U.S. in Energy Use” <http://online.wsj.com/article/SB10001424052748703720504575376712353150310.html> accessed July 23, 2012)

"There is little doubt that China's growing consumption changes what ability we have to control our own destiny within global energy markets," said David Pumphrey, a senior fellow at the Center for Strategic and International Studies. "China can now demand a large space inside any energy-policy tent." China's rapidly expanding need for energy promises to have major geopolitical implications as it hunts for ways to satisfy its needs. Already, China's rising imports have changed global geopolitics. Chinese oil and coal companies have been looking overseas in their quest to secure energy supplies, pitching the Chinese flag in places like Sudan, which Western companies had largely abandoned under international pressure. The most ambitious effort to secure overseas energy supplies was the failed 2005 attempt Cnooc Ltd. to take over California-based Unocal in an $18 billion bid, which was trumped by politics and rival Chevron. Despite a short pullback in the aftermath of that failed deal, Chinese companies have expanded overseas, buying assets in Central Asia, Africa, South America, Canada and even small stakes in the Gulf of Mexico. While their overall overseas footprint is still small compared with that of big international oil companies, these companies are expanding with access to cheap credit through China's state-owned banks.

#### OPEC nations are able to adapt to high demands of China a rising power

Shai Oster and Spencer SWARTZ July 18, 2010 (Shai Oster is an American journalist, Hong Kong based correspondent for Bloomberg. He has won several awards in more than a decade as a journalist in China, Europe, and the U.S., writing about a broad range of economic, business and social issues. Spencer Swartz is Vice President and Associate Director, Energy and Sustainability Practice at Fleishman Hillard Past: Regulatory affairs adviser at Neste Oil Corp, Senior OPEC Correspondent at The Wall Street Journal, Correspondent, energy, technology and general. “China Tops U.S. in Energy Use” <http://online.wsj.com/article/SB10001424052748703720504575376712353150310.html> accessed July 23, 2012)

China's rise is also helping shift the focus for oil producers in the Organization of Petroleum Exporting Countries. Key OPEC states like Saudi Arabia long looked to U.S. oil consumption for guidance in adding new pumping capacity. But in recent years, OPEC states including Saudi Arabia and the United Arab Emirates have built or started building refineries and storage facilities in Asia. Saudi Arabia, the world's biggest crude exporter, now ships more to China than to the U.S.

### No link: transit not key.

#### Even Bicycles wouldn’t reduce our oil consumption and car efficiency doesn’t help.

Reynolds 05 (Alan Reynolds is a senior fellow with the Cato Institute and a nationally syndicated columnist, “Oil prices: Cause and Effect” <http://www.cato.org/publications/commentary/oil-prices-cause-effect>)

Why is crude oil so expensive? Why does it matter? The price of crude didn't rise from $12 in early 1999 to nearly $60 because the world suddenly ran out of oil. On the contrary, the world supply of petroleum has risen 10 percent since then, according to the International Energy Agency (IEA), from 65.8 million barrels a day in 1999 to 72.5 million in 2004. Cambridge Energy Research Associates estimates global oil production capacity will increase at least twice that rapidly over the next five years -- by as much as 16 million barrels a day by 2010. Oil prices did not quintuple after 1999 because Americans suddenly switched from mini-cars to SUVs. **On the contrary, if all passenger cars, pickups and SUVs were replaced with bicycles, the United States would still import a lot of oil. We import nearly 58 percent of all petroleum, yet only 45 percent of each barrel is used to produce gasoline, and a significant portion of that gasoline is used in delivery vans and taxis.** **Commuter and leisure driving accounts for little more than 40 percent of the oil we consume -- far less than the amount we import.** The rest of each barrel of crude is used for heating oil and diesel fuel for trucks, busses, farm machinery and ships (23 percent), petrochemicals (17 percent), jet fuel (9 percent), asphalt (4 percent) and propane (4 percent). U.S. industries use petroleum to produce the synthetic fiber used in textile mills making carpeting and fabric from polyester and nylon. U.S. tire plants use petroleum to make synthetic rubber. Other U.S. industries use petroleum to produce plastic, drugs, detergent, deodorant, fertilizer, pesticides, paint, eyeglasses, heart valves, crayons, bubble gum and Vaseline. **When the cost of oil goes up, production costs are increased and profits reduced for industries that depend on oil**. Producer costs -- not consumer gasoline costs -- are the reason high oil prices threaten to shrink industrial production of goods directly affected and also of energy-intensive products such as aluminum and paper. **This threat affects all new and old industrial economies, whether those nations import or export oil.** The United States may be least vulnerable because of superior energy efficiency and a larger service sector. **Of these many uses of oil in industry and commercial transportation, gasoline demand among ordinary consumers may be the least sensitive to price.** That is why the relatively invariable demand of motorists cannot possibly account for the wide cyclical variations we observe in crude prices. It's the other 60 percent of the barrel that matters most, at the margin. The U.S. index of industrial production peaked at 116.4 in June 2000 and then fell to 109.1 by December 2001; the price of West Texas crude simultaneously fell from $32 to $19. U.S. industrial demand for petrochemicals declined, and so did the related need for fuel used to transport industrial supplies and products. Similar effects were magnified worldwide. Falling industrial production in any region has the same effect on oil prices, so crude fell from $25 to $12 in the wake of the Asian currency crisis of 1997-98. It is commonplace to blame rising oil prices on industrial expansion in China, but that is a misleading exaggeration. Long before China's rediscovery of capitalism, earlier Asian Tigers accounted for a rising share of world petroleum demand. From 1978 to 2004, oil consumption rose 28.6 percent in the world but only 8.9 percent in the United States. That difference was exemplified by a 344 percent increase in South Korea's oil demand. **The United States still accounts for 25 percent of world oil consumption, but a declining 10 percent share of oil production**. China accounts for 8 percent of consumption and 4 percent of production. China looms much larger, however, in terms of the incremental increase in demand. The IEA estimates China will account for 25.8 percent of this year's increase in demand and the United States will account for 14.6 percent. This leaves nearly 60 percent of the year's added demand coming from the rest of the world. Or maybe not. Just as oil market pundits typically ignore the 60 percent of petroleum not going into passenger cars, they likewise ignores the 60 percent of incremental oil demand not coming from China and the United States. Recall how regional industrial contraction collapsed the oil price in 1998 and 2001, then examine the last pages of The Economist to see what happened to industrial production over the latest 12 months. U.S. industrial production looks strong -- up 2.7 percent in May -- but that same figure a year earlier was up 4.8 percent. For Japan, industrial production is up only 0.6 percent, though a year ago it was up 8.3 percent. Countries that were experiencing industrial increases of 12 percent to 22 percent a year ago -- such as Taiwan, Brazil, South Korea and Singapore -- are now up only 1 percent to 4 percent. For the Euro area, industrial production is down 0.1 percent. For Britain -- which exports oil -- it is down 1.9 percent. For Mexico -- which exports oil -- it is down 4.7 percent. The Organization for Economic Cooperation and Development (OECD) tracks all major economies plus one mid-sized economy (Mexico) that accounts for 13.7 percent of U.S. exports. A six-month trend of the OECD leading indicators was up 7.5 percent at the start of 2004, but has since fallen to minus 0.5 percent this April. Want the bad news first? High oil prices have already slowed industrial production in many countries, even China and the United States to a lesser extent. Leading indicators point to wider and deeper trouble ahead. The good news is that oil prices have proven very sensitive to industrial production, so this problem is self-limiting. Cost-squeezed industrial firms -- not necessarily in the United States -- **will be reducing production and thereby reducing world oil demand and prices**. Meanwhile, some clueless senators are oddly eager to push the Chinese currency up, which would make oil cheaper for Chinese industry and more expensive at home. **The White House seems oddly eager to enact more tax-financed subsidies for those who buy Japanese hybrid cars,** German diesels and ethanol made from corn or sugar. It is difficult to imagine a more irrelevant "energy policy." The only policy that might actually shrink the "fear premium" in oil prices (estimated at $10 to $20) is to use the strategic petroleum reserve strategically -- to quell panic during hurricanes, strikes, wars and the like. But the United States has instead imported oil to add to the reserve whenever oil prices were unusually high (1981 to 1985 and now) and sold oil when the price was low (1997).

Nobody in Washington shows the slightest awareness of the global nature of the oil market, of the fact that industrial damage from high oil prices has nothing to do with whether a country imports or exports oil, or even the fact that there is a crucial two-way linkage between worldwide industrial production and worldwide oil prices. When it comes to causes and effects of high oil prices, nobody in Washington shows much interest in logic or facts. It might be sad if it wasn't so pathologically pathetic.

## No Internal link

### No Backstopping

#### No flooding of market: Prices low now and OPEC checks

Daya, 6-7 (Daya, Ayesha. Staff writer for Bloomberg News. Saudi Arabia Achieving $100 Oil Signals Output Reversal. Bloomberg News. http://www.bloomberg.com/news/2012-06-06/saudi-arabia-achieving-100-oil-signals-output-reversal.html)

Saudi Arabia is poised to rein in oil sales after it achieved a $100-a-barrel target by cutting the price of its crude and pumping at the highest rate in at least three decades.¶ The world’s biggest crude exporter started to scale back shipments this month, Vienna-based researcher JBC Energy GmbH said, citing tanker fixtures. Three days ago the desert kingdom raised the July official selling price to Asia of its main crude grade, Arab Light, for the first time in three months, another sign that it is reducing production, according to the Centre for Global Energy Studies in London.¶ Saudi Arabia has been trying to lower the international price of oil to about $100 as slowing global economic growth counters concern of a supply shortage following a ban by western nations on imports from Iran. Brent crude, used to price more than half the world’s oil, fell to a low of $95.63 a barrel on June 4 amid Europe’s debt crisis, brimming supplies and weaker- than-expected Chinese manufacturing. Prices were as high as $128.40 in March.¶ “The downward pressure on prices will continue until they reduce supply,” said Manouchehr Takin, an analyst at CGES, which predicted last month that the Saudis would attain their $100 target. “OPEC’s doves have said $100 is their target, so they have to defend it.”¶ The kingdom has been pumping more than 9.5 million barrels a day since June 2011, the longest stretch for at least 11 years, according to data from the U.S. Energy Department. Output has averaged 10 million barrels a day for the past three months, Oil Minister Ali al-Naimi said. That’s the highest level since at least 1980, according to U.S. government data. Brent should drop to $100 as supply outweighs demand, al-Naimi said on May 13 in Adelaide, Australia, when prices were near $112.¶ Brent closed at $100.64 a barrel on the London-based ICE Futures Europe exchange yesterday and traded at $101.90 today. The price of OPEC’s basket of crudes dropped below $100 on June 4 after more than seven months, ending the longest run in triple digits amid weaker growth.¶ Saudi Arabia raised the premium for Arab Light to $1.35 a barrel over benchmark prices for July delivery. That pares the biggest price cut in the first half of the year the kingdom has made since Bloomberg began compiling the data in 2000.¶ Demand for Saudi crude would drop to 9.5 million barrels a day in the second half, about 500,000 barrels less than what the kingdom produced last month, according to JBC Energy. To balance the oil market, members of the Organization of Petroleum Exporting Countries should cut output, which is at “elevated” levels near 32 million barrels a day, by 1.15 million barrels, Morgan Stanley forecast yesterday.¶ “We think the Saudis have started to cut back already,” David Wech, managing director at JBC, said by phone yesterday. “The economy is struggling, demand is relatively weak, stock builds have taken place in the U.S., China, and by the Saudis themselves. All these factors point to a drop in production.”¶ OPEC agreed in December to an official production ceiling of 30 million barrel-a-day for all 12 of its members, without specifying individual national quotas. The group meets again on June 14 in Vienna.¶ Quota Unchanged¶ Barclays Plc, Societe Generale SA and the CGES predict that OPEC will keep its formal supply quota unchanged next week. OPEC will maintain supply as they’d be “unwilling to do anything that might risk prematurely tightening markets once again at a time of such economic uncertainty,” International Energy Agency Executive Director Maria van der Hoeven said in a June 5 interview in Kuala Lumpur.¶ OPEC would cut output if Brent falls to $90 a barrel, according to Mirae Asset Securities Hong Kong Ltd. Producers in the Middle East need prices at about $90 to balance their national budgets, Gordon Kwan, its head of regional energy research, said in a report today.¶ Europe’s debt crisis, now in its third year, has crimped exports from China, whose manufacturing sector in May grew at the weakest pace since December, according to the country’s Purchasing Managers’ Index. The world’s second-largest economy said it will cut interest rates for the first time since 2008 from tomorrow.¶ European Union governments will go ahead with a ban on Iranian oil imports from July 1 even though some “progress” was made in nuclear talks between major world powers and officials from the Islamic republic, the EU said May 25. Crude exports from Iran were about 300,000 barrels a day lower in the first three months of the year, compared to the last quarter in 2011, according to the Paris-based IEA.¶ Storage Tanks Full¶ OPEC, responsible for about 40 percent of global output, bolstered production by 410,000 barrels a day to 31.85 million barrels in April, IEA data show. That leaves the group’s output at about 2.3 million more than is needed in the second quarter and 6 percent above its quota.¶ Saudi Arabia’s oil storage tanks at home and overseas are full, al-Naimi said in March. China increased its imports in the first quarter to fill stockpiles and not because of growth in domestic demand, China National Petroleum Corp. said May 4 in its online newsletter. U.S. crude inventories fell for the first time in 11 weeks in the week ended June 1, dropping from a 22- year high of 385 million barrels, Energy Department data show.¶ “The Saudis had ramped up production because they were very worried about the potential for demand destruction from high prices,” said Roy Jordan, a London-based oil analyst at Facts Global Energy. “If prices fall more precipitously, we would expect Saudi to cut back.”

#### No risk of backstopping: low supplies

CHAZAN, 12 (Guy, staff writer, "IEA warns of falling spare oil capacity," Financial Times, 3/14, http://www.ft.com/intl/cms/s/0/14b2afec-6db0-11e1-b9c7-00144feab49a.html#axzz21THmTQrB)

The disruptions to supply in places like South Sudan, Yemen, Syria and the UK North Sea come at a time when Opec has ramped up production, with Saudi Arabia pumping at a three-decade peak and Libyan output quickly recovering to prewar levels. The IEA said Opec production stood at 31.42m b/d in February, the highest level since mid-2008.¶ That has led to a decline in Opec’s spare capacity – the cushion of supply its big producers, especially Saudi Arabia, keep in reserve. The IEA said Opec spare capacity is now below 3m b/d for the first time since 2008 – a year when oil prices spiked to their all-time high of $147 a barrel.¶ The combination of low Opec spare capacity, constrained non-Opec supply and tightening western oil inventories – which are below their five-year average for a seventh consecutive month – means oil markets are in for a “bumpy ride in the months ahead,” the IEA said.

#### No risk of Saudi backstopping: Profit motive and production

Cooper, 12 (Andrew Scott, Cooper holds advanced degrees from Columbia University, University of Aberdeen, and Victoria University. Dr. Cooper has worked at the United Nations and Human Rights Watch and is a columnist for PBS/Frontline's Tehran Bureau, "Iran, Saudi Arabia, and a Global Game of Risk," http://www.pbs.org/wgbh/pages/frontline/tehranbureau/2012/05/comment-iran-saudi-arabia-and-a-global-game-of-risk.html)

Americans will. It wasn't too long ago that the Saudi budget was balanced on $42 per barrel of oil. Those days may be gone for good. According to the Institute of International Finance, this year's 31 percent increase in government spending means that Saudi government finances can break even only if oil sells at an average $88 per barrel (and $110 per barrel in 2015). That translates into a $20 increase from last year. Saudi Finance Minister Ibrahim al-Assaf avers that the kingdom can balance its books if oil sells at just under $80 per barrel. This helps explain recent statements by Saudi officials that they would prefer oil prices to hover at around $100 per barrel -- they are allowing for a modest financial cushion if demand for Gulf oil falls back to 2008-09 levels.¶ These unfavorable trends have not gone unnoticed in Tehran. Last month, Iranian Oil Minister Rostam Ghasemi dismissed Saudi Arabia's claim that it was prepared to step in to replace Iranian oil lost due to new sanctions. "Saudi production may be temporary, and it definitely cannot continue," he predicted. The Iranians are gambling that Saudi production, though at full capacity, will not make a dent in the oil markets. The implication is that the Saudis don't really want to -- or perhaps can't afford to -- bring prices down. The Iranians had better hope they are right.

#### Saudi Arabia will not flood the market; profits are up.

NUQUDY 12 ("Saudi tolerates low oil prices" http://english.nuqudy.com/Gulf/Saudi\_Tolerates\_Low-2246)

Saudi Arabia is showing no signs of changing its policy of increased oil production in order to support global economic growth. This is despite a drop in Brent oil prices to below 90 dollars a barrel for the first time in 18 months. Although the Saudi budget can tolerate the low oil prices, rivals Iran and Russia cannot. These two countries are at odds with Saudi Arabia over support for opposing sides of the Syrian revolution. The Saudi budget is showing a revenue surplus for the first half of 2012. As a result, the country can balance its budget at a much lower oil price than many other OPEC members and Russia, which is not a member of the international oil cartel. Furthermore, a senior oil official from the Gulf state affirmed that, if Saudi Arabian oil production continues at the same pace, it would not flood the market. According to him, Saudi Arabia wants to act responsibly and in the interests of the global economy.

#### Saudi Arabia cannot flood market and demand is already low

Hartley, CEO of Future Directors International, 7/4 (Major General John, "Iran's Oil Embargo: An Uncertain Future" Future Directions International, http://www.futuredirections.org.au/publications/south-west-asia/37-south-a-west-asia-swa/599-iran-s-oil-embargo-an-uncertain-future.html)

Increased exports from Saudi Arabia have probably had the greatest impact on this issue. Output has risen from 9.45 million barrels per day last year to more than ten million barrels today. But Saudi Arabia is nearing its capacity, with experts claiming that its spare capacity is probably not more than another two million barrels per day. It should also be noted that last month OPEC ministers left their contribution at 30 million barrels per day. A further factor that has contributed to the reduced price is a demand slump in Europe and economic slowdown in the US and China. Some countries also have oil in storage that can, at least temporarily, offset reduced imports.

#### Saudi's cant flood the market - they can barely keep up with current demand

Hulbert, senior fellow at the Clingendael international Energy Programme, 12 (Matthew, "Banking on Saudi-Parabia," European Energy Review, April 2, http://www.europeanenergyreview.eu/site/pagina.php?id\_mailing=265&toegang=e56954b4f6347e897f954495eab16a88&id=3618)

This hits on a very inconvenient truth, namely that the Saudis will struggle to cover incremental gaps, let alone more explosive outages. And that's before we even consider the regional political picture facing Riyadh. Irrespective of Iranian ambitions, the Saudis remain deeply concerned about political stability in its oil-rich Eastern Province, especially with continuing problems in neighbouring Bahrain. State implosion in Yemen is seen as an internal issue the Saudis have to tend to in the South, while political instability in Iraq is problematic further North.

### No Saudi Control

#### Saudi Arabia is losing its control of the oil market.

Cooper, 12 (Andrew Scott, Cooper holds advanced degrees from Columbia University, University of Aberdeen, and Victoria University. Dr. Cooper has worked at the United Nations and Human Rights Watch and is a columnist for PBS/Frontline's Tehran Bureau, "Iran, Saudi Arabia, and a Global Game of Risk," http://www.pbs.org/wgbh/pages/frontline/tehranbureau/2012/05/comment-iran-saudi-arabia-and-a-global-game-of-risk.html)

Since then, but particularly this year, oil industry analysts have questioned Saudi Arabia's ability to deliver on its claim to be the "swing producer" to the world economy. In a recent opinion piece published in the Wall Street Journal, author James Krane pronounced the end of the Saudi "safety net" that, since 1977, has allowed the United States to meet its foreign policy objectives in the Middle East while keeping gas prices low at home. Analyst Cyrus Sanati, writing in Fortune, explained that the Saudis have essentially lost control of the oil markets and are no longer in a position to offer price relief as they used to. One of the most intriguing clues to Saudi oil production came in the wake of the WikiLeaks release of sensitive U.S. State Department cables a year and a half ago. According to cable traffic, a senior Saudi oil official confided his view that the national oil company had overstated reserves by 300 billion barrels, or nearly 40 percent of total reserves. "In his view once 50% of original proven reserves has been reached...a steady output in decline will ensue and no amount of effort will be able to stop it." The Saudi official was described as "no doomsday theorist. His pedigree, experience and outlook demand that his predictions be thoughtfully considered." American diplomats concluded that Saudi assurances to hold oil prices in line should henceforth be viewed with caution.

#### Saudi Arabia cannot flood the market - internal demand and the Arab Spring limit spare capacity

Arab Times 11 ("Saudi Arabia Oil Exports Under Threat from Within," 10/12, http://www.arabtimesonline.com/NewsDetails/tabid/96/smid/414/ArticleID/174916/reftab/69/t/Saudi-Arabia-oil-exports-under-threat-from-within/Default.aspx)

DUBAI, Oct 12, (RTRS): The world may have to live on a lot less Saudi Arabian crude towards the end of this decade as rampant internal demand eats into oil exports and the kingdom’s alternative energy plans may prove too little too late. The top crude exporter is already burning more than 10 percent of its output in power plants on hot summer days. Meanwhile huge fuel subsidies, which have helped sedate Saudi social unrest throughout the Arab Spring, are exacerbating a demand boom that is lapping up the world’s largest oil reserves. Faced with ever increasing quantities of its biggest export earner being consumed at home, Riyadh is banking on a massive nuclear plant building programme to drastically reduce oil use from around 2020, with solar power bridging the gap.¶ But that may not be quick enough to avert a supply crunch by the end of the decade for a world economy still hooked on abundant Saudi crude. “Domestic consumption has been growing very fast as a result of rapid demographics, steady economic growth and heavy subsidies, with the latter leading to excess demand,” said Ali Aissaooui, head of economic research at Arab Petroleum Investments Corporation in Saudi Arabia. “With the ongoing turmoil in parts of the region, social demands are featuring prominently on top of governments’ policy agenda. In this context phasing out subsidies to rein in excess demand growth has become extremely tricky,” he told Reuters. “Excess demand could affect the capacity of some countries, such as Saudi Arabia, to maintain the spare capacity needed to provide flexibility to the global oil market.”

### Saudi Relations Irrelevant

#### Saudi Arabia is becoming corrupt and losing its ability to serve as a valuble ally of the US.

Cooper, 12 (Andrew Scott, Cooper holds advanced degrees from Columbia University, University of Aberdeen, and Victoria University. Dr. Cooper has worked at the United Nations and Human Rights Watch and is a columnist for PBS/Frontline's Tehran Bureau, "Iran, Saudi Arabia, and a Global Game of Risk," http://www.pbs.org/wgbh/pages/frontline/tehranbureau/2012/05/comment-iran-saudi-arabia-and-a-global-game-of-risk.html)

The first is Saudi Arabia's pattern of domestic energy consumption, which can only be described as reckless and short-sighted. The kingdom is now one of the world's biggest gas guzzlers, so much so that "its ability to pay a stabilizing role in world oil markets is at stake." Untrammeled economic growth, high birth rates, and expensive outlays for industrial enterprise and the military are soaking up the country's fuel reserves. And according to a recent analysis by Chatham House, the country's energy consumption is set to double in a decade: "On a 'business as usual' projection, this would jeopardize the country's ability to export to global markets. Given its reliance on oil export revenues, the inability to expand exports would have a dramatic effect on the economy and the government's ability to spend on domestic welfare and services."

### AFF: Saudi loves low prices

Saudi prefers lower prices

Manning, July 13, 2012 senior fellow at the International Security Program at the Atlantic Council, (Robert, "OPEC and Saudi Shred Middle Power Diplomacy," http://isnblog.ethz.ch/international-relations/opec-and-saudi-shrewd-middle-power-diplomacy)

Riyadh’s apparent logic reveals a shrewd effort to influence not just energy markets, but also global and regional realities. Riyadh is fearful of the fragility of the global economy and calculates that lower oil prices could enhance global economic growth, not least in Europe and the United States. And in terms of oil futures, lower prices would likely slow investment into the burgeoning US-led shale gas (and increasingly oil) revolution, bolstering the Saudi position. Then there is the growing mess in Syria and the underlying strategic competition if not Sunni-Shia proxy war in which Saudi Arabia and Iran are principal antagonists. Lower oil prices raise the cost of Iranian (and as Russian) support for the Assad regime in Damascus. Iran’s alliance with Syria underpins its ambitions of becoming a dominant regional power. The unraveling of the Assad regime and a Sunni-majority government in Damascus would be a potentially huge strategic setback for Iran. And Tehran, already squeezed by sanctions also fears Riyadh seeks to take its market share. And the developments mentioned above would not hurt Riyadh’s reputation and status in the G-20, which despite its shortcomings remains a significant player in addressing global financial problems. The Saudis seem to be betting that oil prices will not precipitously collapse, as they did after the Asian financial crisis of 1997-99, when they fell below $20 a barrel. If oil prices remain in the $70-$90/brl range, what might at first glance appear befuddling behavior for the world’s largest oil producer (now at a record high 10.1 brls a day), could turn out to be rather shrewd middle power diplomacy rippling across oil markets, the global economy and regional political realities.

### High Prices cause Backstopping

#### Saudi Arabia will flood the market if oil prices remain high.

REUTERS, 12 ("Al Naimi: Saudis determined to bring oil prices down" http://gulfnews.com/business/economy/al-naimi-saudis-determined-to-bring-oil-prices-down-1.1008200)

Saudi stockpiles at home and abroad were full, he added. Inventories in industrialised countries were also filling up, he said.¶ "Fundamentally, the market remains balanced — there is no lack of supply," he said. "Saudi Arabia has invested a great deal to sustain its capacity, and it will use spare production capacity to supply the oil market with an additional required volumes."¶ The International Energy Agency (IEA) said on Thursday that the oil market had broken a two-year cycle of tightening supply conditions as demand growth weakens and top exporter Saudi Arabia increases output. The agency, which advises industrialised nations on their energy policies, said increased supply and slowing demand growth might already point to a significant rise in global oil stocks.¶ Stubbornly high oil prices could be expected to ease when markets woke up to the shift in trend, it added. "They [Saudi Arabia] do have the capacity to flood the market with extra oil and increase supplies because they are not happy with persistently high oil prices," Ben Le Brun, a market analyst at OptionsXpress in Sydney, said. "But more than supply, prices are high due to risk premiums for what is happening in the Middle East and North Korea. Those risks aren't likely to go away anytime soon."

## Aff: Impact answers

### Uniqueness: US- Saudi Relations Cool

#### Arab Countries Assessing Reliability of US allies and Relations

Burti and Guzansky 6-28-12 (Benedette, a research associate at the Institute for National Security Studies, and Yoel a research fellow at the institute for National Security Studies, also a member of the Israel’s National Security Council, What the Arab Spring Taught the World about Supporting Dictatorships, http://www.canadafreepress.com/index.php/article/47675.

Eighteen months ago, a sudden eruption of social and political protests across the Middle East took the world by storm. Despite widespread awareness that the mix of economic stagnation, sky-rocketing unemployment, demographic pressure, corrupt and inefficient government, and social and political repression represented a serious threat to the stability of the region few anticipated the magnitude and impact of the so-called Arab Spring.¶ ¶ This failure of imagination reveals the substantial limits of the dominant paradigm employed by the United States, and to a lesser extent its European counterparts, in assessing the quality and reliability of its allies. Bluntly put, a leading principle of US foreign policy in this region of the world has been the “he may be a bastard but he’s our bastard doctrine.” Accordingly, regimes with dubious (at best) records in terms of good governance and democracy were strongly supported because of their willingness to cooperate with the US in achieving its national interests. In judging whether these allies would be able to deliver on their promises and in assessing their reliability, policymakers looked to the stability of the regime and of the robustness of its coercive apparatus¶ There have been signs that the current administration is coming to terms with this notion and beginning to formulate its policies for the MENA region accordingly. For instance, in his May 2011 speech to the Arab world, President Obama declared that promoting reforms in the Arab world is now a primary goal of the administration. Of course these declarations are not enough to eliminate the accusation of applying double-standards with respect to the ongoing Arab Spring, for example by endorsing military force against the Qaddafi regime while refusing to take a clear stance with respect to the protests in Bahrain, but still they do send the message to the region that the list of priorities is changing.¶ This new outlook should be reflected when engaging with new allies, and it should also permeate in the US’s relations with its traditional allies in the region, like Saudi Arabia or Bahrain. It is neither easy nor convenient to break off relations built over the course of many decades and deeply grounded on strong material interests of both sides. For example, if we look at US-Saudi relations it is easy to argue that the partnership is very much mutually advantageous. The Americans still need access to the Gulf and its economic and energy resources, while Saudi Arabia still needs effective security support. Similarly, it is also true that an assertive Saudi policy, especially if aimed at Iran, is consistent with Washington’s interests. Finally, a serious wedge between Washington and Riyadh would likely limit even further the United States’ ability to wield influence in the region.¶ However, a just balance has to be found between breaking old and advantageous alliances and turning a blind eye and providing a blank check to authoritarian regimes. In the cases of Saudi Arabia and Bahrain, for instance, preserving the current status quo and ignoring the growing protests can be incredibly expensive for the US in the longer term. In this context, a more cautious approach would argue to maintain the alliance but insert growing “conditionality,” insisting on gradual internal reforms.¶ However, one of the main lessons of the Arab Spring is that this “stability vs. freedom” tradeoff is shortsighted. Instead, a better approach would have been to partially withhold the aid—allowing some of the assistance to begin— as a way to both preserve the relations with the new political authority while showing that there is a real commitment to supporting human rights and locally-determined democracy.¶ A second important insight gained from looking at the Arab Spring through the lens of human security is to highlight the depth and magnitude of the challenges that the MENA region is facing in its post-revolutionary stabilization phase.¶ The Arab uprisings, in removing old despotic regimes, have only began to scratch the surface of the problem, indicating that the post-revolutionary phase will be particularly challenging and require deep structural reforms. In turn, this means that it is fair to expect continued upheaval and instability. In addition, this also leads to expect further protests to continue across the region, perhaps affecting countries that we have insofar thought off as immune to the upheaval.¶ In sum, the realist tradeoff between morality and national interests in foreign policy is redefined and challenged by the ongoing Arab Awakening. The crumbling of traditional allies considered as stable but yet profoundly unpopular and illegitimate within their own society calls for a drastic rethinking of the paradigm. Turning a blind eye to human rights violations and despotism is not just morally questionable, it is also a bad policy

#### US-Saudi Relation tensions increasing due to Iran nuclear Ambition

Stares 2-1-12 (Paul B., Senior Fellow for Conflict Prevention and Director of the Center for Preventive Action, Council on Foreign Relations

Interviewee F. Gregory Gause III, Professor of Political Science, University of Vermont, Iran and the U.S.-Saudi Relationship, http://www.cfr.org/saudi-arabia/iran-us-saudi-relationship/p27264)

The U.S. alliance with Saudi Arabia, increasingly strained since the Arab upheavals last spring, faces further challenges over how to respond to Iran's nuclear ambitions, says F. Gregory Gause III, professor of political science at the University of Vermont.¶ "The Saudis would certainly see Iran crossing the nuclear threshold as a major security challenge," says Gause, author of the Council on Foreign Relations special report "Saudi Arabia in the New Middle East." "If our American interest is in preventing proliferation, we have to start talking to the Saudis very quickly about their options and our options if Iran were to cross that threshold."¶ Gause says the United States will likely need to provide "some kind of formal American guarantee of Gulf security, Saudi security, Gulf state security in general to try to dissuade the Saudis from trying to pursue their own nuclear capability."¶ The Saudis' competition with Iran also shapes their view of the changes taking place throughout the Middle East, Gause says. "They view upheaval throughout the region through the lens of whether this is going to help Iran or hurt Iran, because they see Iran as their major geo-political challenge in the region," he explains. Gause says that this is the main reason the Saudis "are supportive of regime change in Syria, because that would hurt Iran's position."¶ However, Saudi Arabia and the U.S. are at odds when it comes to preventing change in the region's monarchies, Gause says. The Saudi deployment of troops into Bahrain to support the Bahraini government last year created tensions with the United States, he says.

#### US-Saudi Relations improvements halted until Saudi gets priorities in check

Lippman, 2012 (Thomas W., A journalist and author, specializing in the Middle East and US-Saudi relations, Saudi Arabia on the Edge, http://www.cfr.org/saudi-arabia/saudi-arabia-remains-indispensable-us-ally-argues-new-cfr-book/p27072)

As the United States confronts a volatile Middle East, Saudi Arabia is "a central player—sometimes in accord with U.S. policy, sometimes not—in Arab-Israeli peace negotiations, in the quest for stability in Iraq, in Persian Gulf regional security issues focusing on Iran, and in the global struggle to promote a peaceful vision of Islam over jihadist violence," writes Thomas Lippman in a new book, Saudi Arabia on the Edge: The Uncertain Future of an American Ally.¶ Making matters more difficult is the reality that Saudi Arabia faces significant domestic challenges. The kingdom of Saudi Arabia "lacks the tools to meet the challenges that confront it: a restless, young population; a new generation of educated women demanding opportunities in a closed society; political stagnation under an octogenarian leadership; religious extremism and intellectual backwardness; social division; a flawed education system; chronic unemployment; shortages of food and water; and troublesome neighbors."¶ Yet, the future of Saudi Arabia is promising, Lippman asserts, because "over the past decade the Saudis have recognized their problems, acknowledged them, encouraged public discussion of them, and marshaled resources to confront them."¶ On the Muslim world, "Saudi Arabia's historic primacy in Islam makes it indispensable to a constructive relationship between the non-Muslim West and the Muslim world," he concludes. "The kingdom is a central arena in the worldwide struggle within Islam between forces of tradition and xenophobia, which oppose all change and wish to turn backward, and advocates of modernization who believe that Islam must adapt to a changing world and can do so without surrendering its ideals and values."¶ On Iran, the Saudis have "made no secret of their anxiety about the prospect of such a rival acquiring nuclear weapons, but they also recognize that for all their wealth they cannot do much to prevent it." The prospect of a nuclear Iran will only make the alliance with the United States stronger, he argues.

#### Oil not key to US-Saudi Relations - other interest supersede

KERN 10 (Nathaniel, president of Foreign Reports, "Gulf Oil and Gas: What Are the Producers Thinking?" www.relooney.info/SI\_Milken-Arabia/0-Important\_16.pdf)

On balance, then, from a historical perspective, the nature of the U.S.-Saudi relationship is undergoing a subtle but unmistakable change. It is becoming less oil-centric and instead is based more and more on multiple ties: mutual interests and different capabilities, with the United States having unparalleled hard military power and Saudi Arabia having some singular abilities to exercise its own kinds of soft power in a region it knows so well. If, as President Obama noted, we're stuck in the Middle East, whether we like it or not, the United States and Saudi Arabia might as well concentrate on how we can help each other out - both in regional political goals and in advancing our mutual commercial interests.

### AT: ME Prolif

#### No risk of Middle East Arms race

COOK, 12 (Steven A. Hasib J. Sabbagh Senior Fellow for Middle Eastern Studies at the Council on Foreign Relations, "Don't Fear a Nuclear Arms Race in the Middle East," Foreign Policy, http://www.foreignpolicy.com/articles/2012/04/02/don\_t\_fear\_a\_nuclear\_arms\_race?page=full)

Multiple nuclear powers on a hair trigger in the Middle East -- the most volatile region on earth, and one that is undergoing massive political change -- is a nightmare scenario for U.S. and other security planners, who have never before confronted a challenge of such magnitude. But thankfully, all the dire warnings about uncontrolled proliferation are -- if not exactly science fiction -- further from reality than Shavit and Obama indicate. There are very good reasons for the international community to meet the challenge that Iran represents, but Middle Eastern nuclear dominoes are not one of them. Theorists of international politics, when pondering the decision-making process of states confronted by nuclear-armed neighbors, have long raised the fears of asymmetric power relations and potential for nuclear blackmail to explain why these states would be forced to proliferate themselves. This logic was undoubtedly at work when Pakistan embarked on a nuclear program in 1972 to match India's nuclear development program. Yet for all its tribulations, the present-day Middle East is not the tinderbox that South Asia was in the middle of the 20th century. Pakistan's perception of the threat posed by India -- a state with which it has fought four wars since 1947 -- is far more acute than how either Egypt or Turkey perceive the Iranian challenge. And while Iran is closer to home for the Saudis, the security situation in the Persian Gulf is not as severe as the one along the 1,800-mile Indo-Pakistani border. Most important to understanding why the Middle East will not be a zone of unrestrained proliferation is the significant difference between desiring nukes and the actual capacity to acquire them. Of all three states that Shavit mentioned, the one on virtually everyone's list for possible nuclear proliferation in response to Iran is Turkey. But the Turkish Republic is already under a nuclear umbrella: Ankara safeguards roughly 90 of the United States' finest B61 gravity bombs at Incirlik airbase, near the city of Adana. These weapons are there because Turkey is a NATO member, and Washington's extended deterrence can be expected to at least partially mitigate Turkey's incentives for proliferation.

### AFF: Saudi Arabia wont nuclearize

#### Saudi won’t nuclearize: 3 reasons.

Lippman, Middle East specialist and scholar at the Middle East Institute, 11 (Thomas, "Saudi Arabia's Nuclear Policy," http://www.susris.com/2011/08/05/saudi-arabia%E2%80%99s-nuclear-policy-lippman/)

It is highly unlikely, however, that Saudi Arabia would wish to acquire its own nuclear arsenal or that it is capable of doing so. King Abdullah’s comments should not be taken as a dispositive statement of considered policy. There are compelling reasons why Saudi Arabia would not undertake an effort to develop or acquire nuclear weapons, even in the unlikely event that Iran achieves a stockpile and uses this arsenal to threaten the Kingdom. Money is not an issue — if destitute North Korea can develop nuclear weapons, Saudi Arabia surely has the resources to pursue such a program. With oil prices above $90 a barrel, Riyadh is flush with cash. But the acquisition or development of nuclear weapons would be provocative, destabilizing, controversial and extremely difficult for Saudi Arabia, and ultimately would be more likely to weaken the kingdom than strengthen it. The kingdom has committed itself to an industrialization and economic development program that depends on open access to global markets and materials; becoming a nuclear outlaw would be fatal to those plans. Pursuing nuclear weapons would be a flagrant violation of Saudi Arabia’s commitments under the Nuclear Nonproliferation Treaty (NPT), and would surely cause a serious breach with the United States. Saudi Arabia lacks the industrial and technological base to develop such weapons on its own. An attempt to acquire nuclear weapons by purchasing them, perhaps from Pakistan, would launch Saudi Arabia on a dangerously inflammatory trajectory that could destabilize the entire region, which Saudi Arabia’s leaders know would not be in their country’s best interests. The Saudis always prefer stability to turmoil. Their often-stated official position is that the entire Middle East should become an internationally supervised region free of all weapons of mass destruction.

### AFF: Solves price collapse

#### Turn: market already flooded; only aff solves economic collapse that would collapse oil prices.

MAUGERI senior fellow at Harvard, June 2012 (Leonardo, "Oil: The Next Revolution" Harvard's Geopolitics of Energy Series, p. 64)

In particular, a new world-wide economic recession, a drastic chance in Chinese consumption patterns, or a sudden solution to major political tensions affecting a major oil producer (such as Iran), could trigger a major decrease and even collapse of the price of oil. By collapse, I mean a fall below $50 per barrel for one year. The oil market is already adequately supplied with spare capacity of around 4 mbd. This should be able to absorb a major disruption even from a major oil producer like Iran. Furthermore, global production capacity is regularly surpassing demand, in spite of the political and infrastructural problems of several producing countries. In fact, the mere dynamics of supply, demand, and spare capacity cannot explain the high-level of oil prices today.

### AFF AT: Russia

#### Ascribe zero risk - Doomsday predictions about Russian collapse are always wrong

STENT 3 (Angela. professor of government at Georgetown and director of the Center for Russian Studies, "Russian and America: How Close and Embrace?" World Policy Journal XX: $, Winter, http://www.worldpolicy.newschool.edu/journal/articles/wpj03-4/stent.html)

Using extensive interviews with participants in all three administrations, and memoirs by former officials, they paint a compelling picture of officials often overwhelmed by the challenge of an entirely new reality. The unexpected collapse of communism and of the Soviet Union, coming just after the Gulf War, left them with no road map to understand how Russia and other post-Soviet states might develop. Nightmare scenarios suggested themselves: nuclear war between Russia and Ukraine; weapons proliferation on a terrifying scale; Yugoslav-type ethnically based civil war on the territory of the former Soviet Union; mass starvation; economic collapse—the ominous possibilities were endless. That these “dogs did not bark” is testimony to the unwillingness of people in the post-Soviet space to engage in armed conflict and to Western assistance that staved off famine and economic collapse. The failure of catastrophic scenarios to come about is one indicator of success—but if one were to measure America’s contribution to transforming Russia in more positive ways, the evidence is more mixed. If a minimalist definition of success was the absence of catastrophe, the maximalist definition was the creation of a fully functioning democracy in Russia with a transparent market economy and the rule of law. That has not happened yet, and it is unclear when it will. So far, there is no consensus about what would constitute a realistic timetable for Russia’s democratic development.

### AFF AT Russian Econ Collapse

#### Non unique and no impact: Russian economic collapse inevitable - 10 alternative causes- They have to answer each to win ☺

ASLUND 8 (Anders, senior fellow of the Peterson Institute for International Economics, ""10 reasons why the economy will falter" St Petersburg Times http://www.sptimes.ru/index.php?action\_id=2&story\_id=27038)

Moscow’s current economic dilemma is that the old sources of growth will soon be exhausted. Undoubtedly, some capitalist convergence will continue, but it is bound to slow down. Unfortunately, it is easy to compile 10 reasons why Russia is likely to have lower growth in the near future than it has had for the last nine years. 1. Internationally, one of the greatest booms of all times is finally coming to an end. Demand is falling throughout the world, and soon Russia will also be hit. This factor alone has brought the Western world to stagnation. 2. Russia’s main problem is its enormous corruption. According to Transparency International, only Equatorial Guinea is richer than Russia and more corrupt. Since the main culprit behind Russia’s aggravated corruption is Putin, no improvement is likely as long as he persists. 3. Infrastructure, especially roads, has become an extraordinary bottleneck, and the sad fact is that Russia is unable to carry out major infrastructure projects. When Putin came to power in 2000, Russia had 754,000 kilometers of paved road. Incredibly, by 2006 this figure has increased by only 0.1 percent, and the little that is built costs at least three times as much as in the West. Public administration is simply too incompetent and corrupt to develop major projects. 4. Renationalization is continuing and leading to a decline in economic efficiency. When Putin publicly attacked Mechel, investors presumed that he had decided to nationalize the company. Thus, they rushed to dump their stock in Mechel, having seen what happened to Yukos, Russneft, United Heavy Machineries and VSMP-Avisma, to name a few. In a note to investors, UBS explains diplomatically that an old paradigm of higher political risk has returned to Russia, so it has reduced its price targets by an average of 20 percent, or a market value of $300 billion. Unpredictable economic crime is bad for growth. 5. The most successful transition countries have investment ratios exceeding 30 percent of GDP, as is also the case in East Asia. But in Russia, it is only 20 percent of GDP, and it is likely to fall in the current business environment. That means that bottlenecks will grow worse. 6. An immediate consequence of Russia’s transformation into a rogue state is that membership in the World Trade Organization is out of reach. World Bank and Economic Development Ministry assessments have put the value of WTO membership at an additional growth of 0.5 to 1 percentage points a year for the next five years. Now, a similar deterioration is likely because of increased protectionism, especially in agriculture and finance. 7. Minimal reforms in law enforcement, education and health care have been undertaken, and no new attempt is likely. The malfunctioning public services will become an even greater drag on economic growth. 8. Oil and commodity prices can only go down, and energy production is stagnant, which means that Russia’s external accounts are bound to deteriorate quickly. 9. Because Russia’s banking system is dominated by five state banks, it is inefficient and unreliable, and the national cost of a poor banking system rises over time. 10. Inflation is now 15 percent because of a poor exchange rate and monetary policies, though the current capital outflow may ease that problem. In short, Russia is set for a sudden and sharp fall in its economic growth. It is difficult to assess the impact of each of these 10 factors, but they are all potent and negative. A sudden, zero growth would not be surprising, and leaders like Putin are not prepared to face reality. Russia’s economic situation looks ugly. For how long can Russia afford such an expensive prime minister?

### AT Saudi-Sino connect

#### US-Saudi Relations resilient - China cant fill in

JONES 12 (Toby, assistant professor of history at Rutgers, "Saudi Arabia in the New Middle East," Council on Foreign Relations Roundtown, 1/26, http://www.cfr.org/saudi-arabia/saudi-arabia-new-middle-east/p27205)

I think the Saudis are in a difficult position. I think the way they think about this is that they have a complicated place, that historically they believe they've had a special relationship. But since 2001 and, arguably, from the Clinton administration, they felt like it's been a relationship under pressure in various ways. So they've been put in a position where they have to balance that uncertainty with a kind of desperate sense that they want to preserve it as best as possible. The Chinese aren't a reasonable alternative to the U.S. The Chinese can't project kind of military power, the political will to do the sorts of things that the U.S. has historically been willing to do. But at the same time, as Judith pointed out, the U.S. doesn't have a Middle East policy. We don't have a clear approach. We don't know what our priorities are, and Andrew has said the same thing in multiple settings, right, that you know, it's kind of ad hoc; it's convoluted. Are we committed to democracy at this point, or are we a status quo power ourselves? Is Iran going to shape our policy, or it is going to be some combination of things?

#### No risk of oil wars – No data, it’s fear mongering and future relations check

SWAINE 11 (Michael D., senior associate at the Carnegie Endowment for International Peace "Enough Tough Talk on China," The National Interest http://nationalinterest.org/commentary/enough-tough-talk-china-5934)

In reality, there is little if any hard evidence to indicate that China’s strategic intent is to establish itself, in Friedberg’s words, as “Asia’s dominant power by eroding the credibility of America’s security guarantees, hollowing out its alliances, and eventually easing it out of the region.” If this is Beijing’s goal, the Pentagon has yet to discover it—and presumably not for lack of trying. The recently published annual Department of Defense report on the Chinese military asserts that Beijing’s ultimate military intentions in Asia and elsewhere are unknown. And privately, DoD analysts will acknowledge that the PLA is not currently acquiring the kinds of capabilities that would be required to project substantial power far from its shores and eject the United States from Asia. When confronted with such information, proponents of the “China is out to displace us” theory counter that Beijing’s strategy is so stealthy as to avoid detection, and that in any event, it is the so-called realist “logic” of China’s situation that demands such a strategy. According to this logic, Beijing has no choice but to seek to eject the United States from Asia to ensure its own security. So much for free will and the growing imperative both countries face to work together to solve worsening global problems, such as climate change.