

DA OPEC

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1. OPEC is currently worried about a lack of US Consumption

Benoit Faucon onlinenwsj.com February 10, 2010 “OPEC WORRIES U.S. ECONOMIC UNCERTAINTY WILL HURT OIL DEMAND”
([HTTP://ONLINE.WSJ.COM/ARTICLE/SB10001424052748704140104575056883260249068.HTML?MOD=WSJ_COMMODITIES_LEFTTOPNEWS](http://online.wsj.com/article/SB10001424052748704140104575056883260249068.html?MOD=WSJ_COMMODITIES_LEFTTOPNEWS))

Uncertainty about the pace of the U.S. recovery is putting oil-demand growth at risk for the world's largest crude consumer and is weighing on global consumption, the Organization of Petroleum Exporting Countries said Wednesday in its monthly report. The warning, adding to OPEC's concerns about European countries such as Greece, suggests the group is likely to stick to its existing production quotas when it meets March 17 in Vienna. "The 1% forecast growth in U.S. oil demand this year is facing a set of obstacles that could prevent it from materializing," the report said. "If this happens, then the U.S. oil demand might come flat if not negative for the total year," OPEC added. The U.S., which uses close to a quarter of the crude oil consumed worldwide each day, "is a key country to world oil-demand changes," the report said.

B. Link

1. Drastic US consumption will anger Saudi Arabia, de facto head of OPEC

AP October 8, 2009 “Saudis ask for aid if world cuts dependence on oil”
(<http://www.chron.com/disp/story.mpl/business/energy/6657947.html>)

There are plenty of needy countries at the U.N. climate talks in Bangkok that make the case they need financial assistance to adapt to the impacts of global warming. Then there are the Saudis. Saudi Arabia has led a quiet campaign during these and other negotiations — demanding behind closed doors that oil-producing nations get special financial assistance if a new climate pact calls for substantial reductions in the use of fossil fuels.

That campaign comes despite an International Energy Agency report released this week showing that OPEC revenues would still increase \$23 trillion between 2008 and 2030 — a fourfold increase compared to

the period from 1985 to 2007 — if countries agree to significantly slash emissions and thereby cut their use of oil. That is the limit most countries agree is needed to avoid the worst impacts of climate change. The head of the Saudi delegation Mohammad S. Al Sabban dismissed the IEA figures as “biased” and said OPEC's own calculations showed that Saudi Arabia would lose \$19 billion a year starting in 2012 under a new climate pact. The region would lose much more, he said. “We are among the economically vulnerable countries,” Al Sabban told The Associated Press on the sidelines of the talks ahead of negotiations in Copenhagen in December for a treaty to replace the Kyoto Protocol, which expires in 2012. “This is very serious for us,” he continued. “We are in the process of diversifying our economy but this will take a long time. We don't have too many resources.” Saudi Arabia, which sits atop the world's largest proven oil reserves, is seeing economic growth slide because of fallout from the global meltdown, but experts still expect the country, flush with cash from oil's earlier price spike last year, to be better able than other nations to cope with the current crisis. Al Sabban accused Western nations of pursuing an agenda against oil producers, under the guise of protecting the planet. “Many politicians in the Western world think these climate change negotiations and the new agreement will provide them with a golden opportunity to reduce their dependence on imported oil,” Al Sabban said. “That means you will transfer the burden to developing countries, especially to those highly dependent on the exploitation of oil.” Al Sabban said his country wanted a new deal and was not impeding progress in talks as some activists have claimed. An Arab environmental group IndyACT and the environmental group Germanwatch released a report today accusing Saudi Arabia of blocking key elements of the negotiations. Among their tactics, the groups said, was slowing negotiations by insisting that the economic woes of oil producers be included in the text. “Despite the variability in the region, the current Arab position is mainly focused around protecting the oil trade rather than saving the planet from the adverse impacts of climate change,” said Wael Hmaidan, the executive director of IndyACT.

C. OPEC Switches to the Euro

Reutersuk.com February 8, 2008 “OPEC may switch to Euro”
(<http://uk.reuters.com/article/idUKL0882239220080208?sp=true>)

OPEC may abandon the dollar for pricing oil and adopt the euro but any such switch will “take time”, OPEC Secretary-General Abdullah al-Badri was quoted as saying by a weekly magazine. A decline in the dollar has eroded oil exporters' purchasing power, prompting some members of the Organization of the Petroleum Exporting Countries to call for a switch away from the U.S. currency. Badri's remarks sent the dollar lower against the euro on Friday. “Maybe we can price the oil in the euro,” the London-based Middle East Economic Digest (MEED) quoted Badri as saying in an interview. “It can be done, but it will take time.” Reuters obtained an advance copy of the interview which will be published in the London-based magazine's next issue. “Badri tells MEED ... that the producers' cartel may switch to the euro within a decade to combat the dollar's

decline," the magazine said without providing a direct quote about the time frame. "It took two world wars and more than 50 years for the dollar to become the dominant currency. Now we are seeing another strong currency coming into the, which is the euro," said Badri, who is Libyan. The euro rose sharply to a session high of \$1.4547 from \$1.4500, where it was shortly before the report. It then settled back at \$1.4515, up 0.2 percent on the day, as of around 6:27 p.m. British time. Iran, at odds with the West over its nuclear programme, and its anti-U.S. ally Venezuela have pressed for OPEC to abandon the dollar and perhaps price oil in a basket of currencies. But they have had little success despite the dollar's sharp fall against a basket of world currencies in recent months amid growing concerns about the health of the U.S. economy and the prospect of interest rate cuts in the United States.

D. Impacts

1. Switch to Euro would destroy the US Dollar

FEASTA 2003 [Foundation for the Economics of Sustainability. "Oil, Currency, and the War in Iraq", 2003, <http://www.feasta.org/documents/papers/oil1.htm>]

This however would be a disaster for the US. Not only would they lose a large part of their annual subsidy of effectively free goods and services, but countries switching to euro reserves from dollar reserves would bring down the value of the US currency. Imports would start to cost Americans a lot more and as increasing numbers of those holding dollars began to spend them, the US would have to start paying its debts by supplying in goods and services to foreign countries, thus reducing American living standards. As countries and businesses converted their dollar assets into euro assets, the US property and stock market bubbles would, without doubt, burst. The Federal Reserve would no longer be able to print more money to reflate the bubble, as it is currently openly considering doing, because, without lots of eager foreigners prepared to mop them up, a serious inflation would result which, in turn, would make foreigners even more reluctant to hold the US currency and thus heighten the crisis. There is though one major obstacle to this happening: oil. Oil is not just by far the most important commodity traded internationally, it is the lifeblood of all modern industrialised economies. If you don't have oil, you have to buy it. And if you

want to buy oil on the international markets, you usually have to have dollars. Until recently all OPEC countries agreed to sell their oil for dollars only. So long as this remained the case, the euro was unlikely to become the major reserve currency: there is not a lot of point in stockpiling euros if every time you need to buy oil you have to change them into dollars. This arrangement also meant that the US effectively part-controlled the entire world oil market: you could only buy oil if you had dollars, and only one country had the right to print dollars - the US. If on the other hand OPEC were to decide to accept euros only for its oil (assuming for a moment it were allowed to make this decision), then American economic dominance would be over. Not only would Europe not need as many dollars anymore, but Japan which imports over 80% of its oil from the Middle East would think it wise to convert a large portion of its dollar assets to euro assets (Japan is the major subsidiser of the US because it holds so many dollar investments). The US on the other hand, being the world's largest oil importer would have to run a trade surplus to acquire euros. The conversion from trade deficit to trade surplus would have to be achieved at a time when its property and stock market prices were collapsing and its domestic supplies of oil and gas were contracting. It would be a very painful conversion.

2. Double Dip Recession

Peter Gorenstein reporter for Yahoo Finance on December 23, 2009 “Risk of Double Dip Recession in 2010 Still Too High For Nariman Behravesh's Liking” (<http://finance.yahoo.com/tech-ticker/risk-of-double-dip-recession-in-2010-still-too-high-for-nariman-behravesh's-liking-395625.html?tickers=tl,tbt,udn,uup,dia,spy%20,qqqq>)

"The recovery will be slow and things will be fairly fragile," and that might be the best we can hope for in 2010, according to Nariman Behravesh chief economist at Global Insight, the world's largest economic forecasting and consulting firm. "Any number of risk could knock us back down into recession," Behravesh tells Aaron and Henry in the accompanying clip. These risks include botched monetary policy by the Fed, a major retrenchment of consumer spending in the face of rising unemployment, and another chapter to the financial crisis.

In the world of a Double Dip Recession and an extremely volatile dollar and

stock market, there would be literally no investment incentives due to venture capitalist withdrawing investments and trying to ride out the bad economy. Without investment, the plan will never solve.