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The Coming Fall of

Oil's recent fall to below \$63 on the New York Mercantile Exchange on October 24th shook the world's complacency. It must be remembered that several months earlier, the "fear industry" spawned nightmare pronouncements that we are entering the age of "peak oil". It also bandied about parallel nightmare scenarios as to survival in a world of \$200+ oil. It seems as if the world has not learnt that the oil industry, much like every other sector of the economy, goes through periodic busts and booms, even though it has been happening since the dawn of the oil industry. John D. Rockefeller's Standard Oil, the spiritual ancestor of OPEC, was created to combat these market bumps. The current fall in oil price, which may have been precipitated more by fear of a sustained global economic crisis, rather than the actual market fundamentals, shows the fragility of the current global economic order.

greggio attorno ai 95 dollari al barile; mentre la Russia necessita di un prezzo di riferimento non inferiore ai 70 dollari. I valori attuali, inevitabilmente, cambiano le regole del gioco.

Certo, nessuno si illude che, alle condizioni odierne, il Venezuela sceglierà la strada dell'alleanza con gli Usa, che la Russia azzerrerà di getto le pressioni sugli Stati vicini, che l'Iran rinuncerà al proprio programma nucleare. Ma è chiaro che, senza il copioso apporto di risorse garantite dalle quotazioni pre crollo, in qualche modo alcune posizioni estreme andranno attenuate; o per lo meno, l'agenda dei Governi locali si arricchirà di ulteriori priorità di intervento (a proposito di agenda, vale la pena ricordare che a giugno 2009 Ahmadinejad dovrà presentarsi al suo popolo per le elezioni). Come già detto, il nuovo scenario non porterà necessariamente i tre Stati ad un'attenuazione delle rispettive posizioni e a un riavvicinamento agli Usa; anzi, se prevalesse il messaggio che la crisi mondiale ha radici e motivazioni proprio nella politica americana, non è escluso un comportamento contrario.

Ciò che è certo è che l'attuale contesto – per molti versi impreveduto e imprevedibile – non sarà privo di conseguenze. Anche se imprevedute e imprevedibili fino a ieri. C'è chi ricorda, al riguardo, che proprio da uno shock petrolifero sarebbe iniziato il processo di disgregazione dell'ex Unione Sovietica, probabilmente con un ruolo non da semplice spettatore dello stesso Reagan...

In questo saggio Justin Dargin approfondisce il tema dei possibili futuri scenari energetici e geopolitici, consapevole che l'unico punto fermo, ormai, pare essere quello di una assoluta fragilità. Dell'economia globale, delle previsioni effettuate, delle quotazioni delle commodity.

Dopotutto, se anche un Paese come l'Islanda ha dovuto ricorrere a un pacchetto di aiuti del Fondo Monetario Internazionale (è la prima volta da 32 anni a questa parte che una nazione del blocco Occidentale deve battere cassa alle casse del FMI), forse davvero nei mesi a venire non ci si dovrà più stupire di nulla...

Solo qualche mese fa, parlando di petrolio, gli osservatori internazionali sembravano prediligere gli scenari da incubo e si domandavano come sarebbe sopravvissuta l'economia globale in un mondo a 200 dollari (e più) al barile.

Più di recente il crollo delle quotazioni – che pare essere proseguito anche dopo l'annuncio dell'Opec di un taglio della produzione di 1,5 milioni di barili/giorno – sembra spostare l'attenzione degli analisti di settore su altre tematiche (forse non meno inquietanti) di natura geopolitica.

Due sole considerazioni al riguardo: l'equilibrio economico nazionale di realtà quali il Venezuela e l'Iran si regge oggi su quotazioni del

Resource Nationalism

The drop in oil prices unleashed a chain of frantic action around the oil producing world: OPEC, in fact, called emergency meetings to slash oil production deeply by 1.5 million barrels a day. But no matter the action, it appears that the oil prices are falling downward. And in a related issue, as a result of the global credit crisis, Russian behemoth Gazprom (a natural gas company) announced that the financial crisis could impact its ability to obtain new borrowings and refinance existing debt. Further, the sharp drop in energy prices has caused such actors as Venezuela and Iran to scramble, as their national budgets are premised on oil prices in excess of \$95 a barrel. While Russia, the other leg of the axis of oil tripod, needs a price floor of at least \$70 a barrel to subsist. It must not be forgotten, that among certain sectors, the belief persists that the Soviet Union imploded largely because of the precipitating



▲ Vladimir Putin



▲ Hugo Chavez

effect of the 1986 oil price collapse, which some feel former president Reagan engineered.

Buffeted by the one-two punch of the credit squeeze and the oil price drop, the Russian government reportedly approved a \$9 billion emergency cash injection to shore up its four major energy producers, Gazprom, Lukoil, Rosneft and TNK-BP. Demand is clearly falling, Japan reported drops of up to twelve percent in August, when compared with the same period a year ago. Meanwhile the world's largest consumer, the US, experienced an eight percent decrease this past September.

The promised anti-West coalition of Venezuela, Iran, and Russia, may be heading for a meltdown. The largely oil fuelled ideology that propelled Russia's excursion into Georgia, Iran's nuclear program, and Chavez's anti-imperialist program may be unsustainable at current prices. No one is suggesting of course, that Venezuela will turn into an American ally overnight, that Iran will give up its uranium enrichment program and Russia will stop intimidating its neighbors. But an indisputable fact is that, without funds, Venezuela looks increasingly hampered, Iran is stricken by internal economic contradictions, and Russia is increasingly toothless without the waves of money that flow into its petroaccounts.

Sustained drops in the price could force the three countries into deficit spending, and upset the current leaders' political agenda. It is not to say that the three countries will immediately return to the community of nations; they could, in fact, see the financial crisis as hobbling American global influence and turn increasingly bellicose. Even in the face of everyone's reasonable expectations, the crisis may precipitate a retrenchment of American power, as evidenced by the sustained drop in emerging market currencies, and open debate as to the very real possibility of mass sovereign default rippling across the globe. With more than a little irony, however, International

investors quit, for the most part, higher yield foreign currencies, and repatriated these earnings to the US and Japanese market.

Since the beginning of the year the collapse of the Lehman Brothers pushed foreign investors into treasury bills. This seems counterintuitive as the US was roundly blamed as precipitating this crisis, and as prior discussions centered on



“decoupling” and “diversification” in the international market. Still, with many international investors and policy makers, the US has regained its desirability, although it still remains to be seen if this is a knee jerk reaction or is much more sustained. Some analysts contend that, rather than evidence of international confidence, the dollar’s recent gain represents a global deleveraging, or an unwinding of positions to cover losses on other dollar-based assets. Regardless of the reason, the primary beneficiary is the dollar in Greenspan’s “a once-in-a-century credit Tsunami”. Still, it is like a Mobius strip that leads to internal contradictions: rather than evidence of confidence in US vitality, the run to the US market may reflect the negative confidence that this currency is the least sick unit in the hospital ward.

The “Washington Consensus” institutions, led chiefly by the IMF, have received a shot in the arm after looking increasingly irrelevant when compared with cheap no-strings-attached Chinese loans and investment by oil-backed sovereign wealth funds. The IMF is now asked to bailout country after country, starting with a \$2.1 billion loan to Iceland, which was, coincidentally, the first Western nation to receive an aid package since 1976, followed by a \$16.5 billion package to Ukraine. With the depth of the global crisis unknown, more multibillion dollar aid package announcements are certain to be on the way.

Of course, the global economic crisis and the drop in energy prices are intimately connected with the world political structure. Mr. Ahmadinejad may not retract his November 2007 description of the US dollar as a “worthless piece of paper”. Similarly, Mr. Chavez might not retract his agreement, with his Iranian counterpart that the American “Empire” will fall in tandem with the dollar. Yet, it appears for the time being that their respective positions as a countervailing force will be weakened if their ability to borrow on the international credit market is hampered, and they face the resultant prospects of huge deficit spending. One thing is for certain, Venezuela’s 2009 budget projects a 23-percent increase in governmental spending that will bring it up to \$78.9 billion. With Venezuelans already struggling under an inflation rate of 36 percent, how comfortable will its citizens be with subsidizing its regional allies with Venezuelan money and oil?

Meanwhile the International Monetary Fund announced that Iran could face unsustainable deficits if the price of oil remains below \$90 a barrel. Depressed prices could encourage the Iranian leadership to seek compromise and leave Mr. Ahmadinejad vulnerable in the June 2009 election. Meanwhile, like his erstwhile colleague Mr. Kim Jong-II, Mr. Ahmadinejad is battling rumors of severe illness centered on his absence at several important political events. The confluence of these events could encourage the principle personality behind Iran’s pro-active nuclear stance to reconsider his options.



▲ Donald Rumsfeld

Russia's strategic interests in its "near abroad", i.e. former, Soviet states, could be threatened as well, as a less wealthy Russia is a less fearsome one. Yet, that remains to be seen, since Russia may be a better position to weather an economic storm and depressed oil prices because its budget is situated on an oil price of approximately \$70 a barrel, and revenue exceeding that is earmarked for an economic stabilization fund. No one is yet arguing that Russia's economy will crash as in 1998, but it has increased vulnerability in the face of lower oil and gas revenue.

The highly influential Goldman Sachs study on the so-called "BRIC" economies, Brazil, Russia, India and China, stated that by 2050, their combined economies would outstrip the economies of the current richest countries. Needless to say, this prediction is based on past economic performance and extrapolations as to future performances. The study appeared not to take account of Nassim Taleb's theory – The Impact of the Highly Improbable (2007) – of a Black Swan Event.

According to Mr. Taleb, the ill-fated Maginot line and the US reaction after the 9/11 attacks show that instead of learning from such a game-changing event, we merely take refuge in countering that particular event from ever happening again, in *exactly* the same way. Thus, according to Mr. Taleb, the lesson learned from 9/11 was how to counter Islamic terrorists' proclivity to ram high buildings with jet airliners. We rarely sit around thinking about things that we don't know, or at great risk, to paraphrase former Secretary of Defense Donald Rumsfeld, the *unknown unknowns*.

Mr. Taleb holds that the creation of the personal computer, the advent of World War One, the collapse of global Communism, and the 9/11 attacks all exemplify his theory. Even

though David Hume and Karl Popper dealt with the problem of induction in logic – i.e., drawing general conclusions from specific observations – Mr. Taleb makes the provocative claim that almost all consequential events in human history manifest from the unexpected. Humans, he says, exhibit hindsight bias by convincing themselves, necessarily in hindsight, that these events were actually foreseeable. This theory illustrates the severe limitations inherent in constructing grand theories from observations and suggests the fragility of our knowledge.

Human beings, of course, are constrained to rely on our personal experiences or those others have passed to us, as gauges for future events. Mr. Rumsfeld's tautology of the *known knowns*, *known unknowns* and *unknown unknowns* held him up to high ridicule. Yet, Mr. Taleb advises, perhaps with more scholarly constraint, that we should nevertheless remain slightly skeptical and allow the unknown to take its rightful place, and not be surprised when it knocks at the door.

When highly respected oil analysts prophesized \$200 barrel oil around the corner, and that oil prices would never go below \$100 again, we should have remained on guard. When political pundits declared that the age of unipolarity was over, we should again leave room for Taleb's Black Swan. Pundits have contended for months that the economic crisis would herald a shift in the global power system. While they may be accurate, the shift may not be along well-defined or even foreseeable lines. The age of the US as a unipolar power may be over, but so may the age of resource nationalism, which, ultimately, is premised on strong external markets that are ready, willing, and able to purchase those resources. In the end, we are part of a global tapestry. To reference Mr. Rumsfeld, the future is an *unknown unknown*.