

ECONOMIC NEWS UPDATE

Irwin M. Stelzer

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OPEC meets on 9/11

As you read this, OPEC, the cartel of most of the world's oil producers, is meeting in Vienna. No, they will not observe a moment of silence in honor of those who died at the hands of Saudi terrorists some six years ago today. Instead, they will go over some data in a show of empiricism, and then refuse the urgent request of world consuming countries to open the spigots so as to bring oil prices down. "You cannot convince any member to add more crude to the market," OPEC secretary-general Abdalla el-Badri told the press. Mahammed al-Hamli, the United Arab Emirates oil minister and OPEC's president, agrees, "I think the market is very well balanced. There is no shortage whatsoever of oil supplies."

OPEC includes several countries that simply cannot increase production, even if they wanted to. Those are the price hawks -- they see no advantage in a decision to increase supplies of crude. Venezuela is one such: its production is sinking as Hugo Chávez replaces Petróleos de Venezuela's highly regarded technocrats with political

hacks. So he wants more for each barrel he produces, especially if high prices threaten US prosperity. Iran, also suffering from falling output as the US embargo denies the country the know-how and equipment needed to update facilities, is also a price hawk.

Then there is the key player, Saudi Arabia, a country quite capable of increasing output, especially if it would allow foreign countries to explore the vast unexplored but promising areas of the country. The Kingdom will talk the talk of moderation and friendship to the West, and then complain that in inflation-adjusted, real terms prices are no higher than they were in the 1970s, that the slowing US economy will reduce the demand for oil, and that the weaker dollar means the kingdom is getting less real purchasing power for its oil. Unsaid is the fact that the Saudi royal family needs the money to fund the lives of thousands of indolent princes, and the terrorist maddrassas that it continues to finance.

Best of all, OPEC now knows that it can count on Vladimir Putin to help it

in two ways, one intentional, the other unintentional. Putin will cooperate with OPEC because high oil prices make it easier for him both to provide Russia's people with butter and his military with guns. He has decided that it is to his political advantage to make missile muscles, and to send his warplanes to places where they are intended to provoke a response from the US and the UK.

He is also inadvertently helping to maintain prices by allowing Russia's oil output to fall as his former KGB and other cronies -- the *siloviki* -- take over the country's oil companies, and reduce foreigners to minor roles in which they have little say over how the nation's resources are exploited. As The Economist pointed out, KGB-trained thugs "know how to grab assets and jail foes, but not how to run real businesses."

In short, there is little likelihood that any of the major producers will permit the foreign investment they need to step up production sufficiently to make a significant dent in the current price of oil. The Saudi royal family doesn't want to antagonize their bin-Ladenites by inviting American investment in, although it relies on American technicians to keep its oil flowing and on the American military to keep it in power. Mexico won't allow American capital in, but wants to ship unlimited numbers of its jobless workers out to the US, rather than remove impediments to its own economic development. The Bush administration acquiesces. In the case of the Saudis, the Bush family and the royal family have long had close relations, and the President thinks he needs the Saudis as potential allies against Iran. So he is disinclined to tell them that unless they

produce more oil, America will withdraw its military protection. As for Mexico, Bush has never linked immigration and energy policy, thereby forfeiting an important lever he has in negotiations over how to control the flow of illegals across the US border.

Alternatives to oil are not on the horizon, at least not in amounts that matter. Coal might develop into an oil substitute in some uses, but it is hardly the darling of the environmental set, despite new technologies that have made it a cleaner-burning fuel. Canada's tar sands are a promising source, but expensive and environmentally intrusive. And the economics of ethanol are at minimum questionable, while their overall environmental impact is far from benign. Besides, it takes almost as much energy to convert foods into fuels as the energy that results from that process -- which has the additional unfortunate effect of driving up the price of bread, beer and other necessities of life.

Any downward pressure on prices will have to come from a reduction in the demand for traditional petroleum. A recession would accomplish such a cutback, but despite recent turmoil in the housing and financial markets, that is not likely -- and it certainly is not a goal of US and European energy policy. There is some indication that \$3-per-gallon gasoline is having a bit of a dampening effect on demand; consumers of new automobiles and other vehicles seem to be selecting models that are more energy-efficient than those they are trading in. But it will take decades for the current fleet of automobiles to be replaced by more fuel-efficient vehicles. Meanwhile, demand for oil-based fuels is rising rapidly in Asia, as increasingly affluent

consumers learn that automobiles are a lot more pleasant means of transportation than bicycles.

Nor is there any indication that other components of the demand for petroleum products are in decline. If anything, demand for aviation fuel is headed up. Nuclear power can't do much, certainly not soon, to replace fossil fuels in mobile uses.

So the most likely scenario is for high oil prices to remain in place, with an upward jiggle when a hurricane threatens off-shore facilities, and a downward move when inventories temporarily spike. The good news is that in the long run that will discourage demand, and encourage efficiency and alternative fuels. Meanwhile, the American economy remains dependent on its enemies for its fuel, its politicians refuse to take meaningful steps to reduce that dependence, and America sleeps.

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