Economics Briefs

Oil and Gas Scarcity Created Continuously Since 2016, by the Green Deal

The headline increases in Saudi Arabia's oil prices June 6 were merely another reflection of the economic suicide being committed by European Union nations and compounded by NATO and the EU's new "sixth generation" sanctions on Russia.

The basics: The Green Deal or "green finance" enforcers have cut global investment in fossil fuels from $800 billion/year in the middle of the last decade, to $350 billion/year in 2020-21, and so there is no exploration, no new finds, no refineries built, no new production capacity in the OPEC+ countries other than Saudi Arabia, the UAE and Russia.

Export of Russian (and Mideast) production of fossil fuels is shifting to Asian nations led by China and India, a process accelerated with each new set of sanctions. The Wall Street and London rumors that OPEC+, after this latest set of sanctions, would stop counting Russian oil in its quotas so that others could produce more, were immediately shot down by a meeting and amicable joint statement of Russian and Saudi Foreign Ministers Lavrov and Faisal. Few of the other producers *can* produce more in any case, due to the ravages of the Green Deal.

The United States is the world's largest producer of crude oil, but has destroyed its refinery capacity. Bloomberg TV on June 5 interviewed the CEO of Chevron Oil, Michael Wirth, who fingered Green Finance: "We haven't had a refinery built since the 1970s. My personal view is there will never be another new refinery built in the United States. You're looking at committing capital 10 years out, that will need decades to offer a return for shareholders, in a policy environment where governments around the world are saying: we don't want these products. Capacity is added by de-bottlenecking existing units by investing in existing refineries. But what we've seen over the last two years are shutdowns. We've seen refineries closed. We've seen units come down. We've seen refineries being repurposed to become bio-refineries. And we live in a world where the policy, the stated policy of the U.S. government is to reduce demand for the products that refiners produce."

So, on June 6 Saudi Aramco raised its prices more than expected to Asia (where demand for fossil fuels is increasing, especially as China reopens port cities and factories and lowers interest rates) and to the trans-Atlantic (where supply is decreasing due to suicidal sanctions). And Russia's revenue from sales of oil was reported to be $6 million higher in the first week of June, than in the same week in 2021.

Putin Explains the Hyperinflationary 'Green Finance' Blowout

On June 3 Russian President Vladimir Putin gave an interview to Rossiya 1 TV, in which he identified the real Wall Street process behind the food crisis and the attempts to blame it on Russia. He explained that it didn't begin with Russia's military operation in Ukraine but rather,

"The money supply in the U.S. grew by $5.9 trillion in less than two years, from February 2020 to the end of 2021—unprecedented productivity of the money printing machines. The total cash supply grew by 38.6%. So, it was a mistake made by the U.S. financial and economic authorities—it has nothing to do with Russia's actions in Ukraine, it is totally unrelated. And that was the first step—and a big one—towards the current unfavorable food market situation, because, in the first place, food prices immediately went up."

Secondly, Putin identified the Green Deal policies of the European Union, which overestimated the capabilities of alternative types of energy such as solar and wind: "[These] cannot be produced in the required amount, with the required quality and at acceptable prices. And at the same time, they began to belittle the importance of conventional types of energy, including, and above all, hydrocarbons."

"What was the result of this? Banks stopped issuing loans because they were under pressure. Insurance companies stopped insuring deals. Local authorities stopped allocating plots of land for expanding production and reduced the construction of special transport, including pipelines. All this led to a shortage of investment in the world energy sector and price hikes as a result. The wind was not as strong as expected during the past year, winter dragged on, and prices instantly soared."

FAO Report Shows World Grain Output Is Falling

In the latest FAO report on world grains supply and demand estimates released June 3, the forecast is for a drop in total cereals output 2022–2023 (June–July), for the first time in four years. Cereals output in 2021/2022 was 2.784 billion tons, and the 2022–2023 estimate is for 16 million metric tons less. The FAO estimates that world cereal utilization (for consumption, biofuels, and livestock) will go down in 2022–23 by 0.1%, to what it was in 2021–2022, 2.788 billion tons, the first contraction in 20 years. Stocks are being drawn down.

Of the three main cereal crops, the largest decline is expected for maize/corn, followed by wheat, then rice. The volume of grains going onto the world markets is expected to be down 2.6% in the crop year 2022/23 from 2021/2022. That would make it 463 million metric tons (mmt), a three-year low.

Russia's wheat harvest begins in July, and could reach 80 million tons or more, the third highest on record. Other aspects of the world wheat picture:

The U.S. winter wheat crop (harvested later this month) is forecast as 6% down from 2021, given the drought. The expected harvest of U.S. hard red winter wheat is expected to be down 21% from 2021, according to the May 12 USDA *Crop Production* report. A big factor is dry conditions in Colorado, Kansas, Oklahoma and Texas. India's wheat crop has been damaged by the severe March heat wave, and recurring high temperatures since. And Ukraine may harvest only 21.5 mmt this summer, 35% below Summer 2021. Its wheat exports may end up at 10 mmt during the 2022-2023 trade year, instead of the 19 mmt exported in the trade year now ending.

Poland Urges Citizens To Gather Firewood, Due to Coal Shortage

After banning all imports of Russian coal, Poland is now suffering such a severe energy shortage combined with soaring prices, that the government has "authorized" citizens to forage for firewood in the forests.

RT reported: "It is always possible, with the consent of foresters, to collect branches for fuel," Deputy Minister of Climate and Energy Edward Siarka was quoted by *Next Gazeta* as saying June 6. However, desperate citizens will first have to be trained in such medieval technologies: "Those wishing to gather wood must first undergo training and obtain permission from the local forestry unit. The report went on to clarify that people can only take branches already lying on the ground, and cannot cut down trees."

Europe's Energy Self-Denial Is Isolating It

As of last November's COP26 Global Climate Summit in Glasgow, London's British royals and the European Union countries were declaring that they would impose decarbonization on the developing nations by a "war-like mobilization" in the words of Prince Charles.

But even though the "war-like mobilization" became a real war to "crush" the world's top modern energy exporter Russia, the opposite has occurred. Europe's barring fossil fuels and nuclear power to its own populations, at a cost of uncontrolled energy inflation, is making Europe more isolated.

The greatly increased oil and natural gas trade among Russia, India and China, and China's acceleration of its construction of new nuclear plants, have been widely reported. But China and India have also made huge increases in coal power plant construction. China's Prime Minister Li Keqiang announced in late April that the country's leadership had confirmed the goal of increasing coal production capacity by 300 million tons in 2022, including two dozen new power projects and opening an entirely new, 2-billion-ton reserve in Inner Mongolia. And early in May, AFP reported that India's Environment Ministry stated it was allowing a special dispensation to the Ministry of Coal to relax requirements and allow coal production to increase. The government said it planned to increase domestic coal production from currently about 800 million, to 1.2 billion metric tons a year. The dominant reason for this 700-million metric ton increase by the two Asian powers combined, is the demand for more electricity, the key to industrial development.

Russian Interest Rate Dropped Again

The Bank of Russia announced June 10 it had reduced its discount rate from 11% to 9.5%. The bank reported that inflation moderated slightly in May and early June (to about 17.1%), and "overall, the actual decrease in economic activity in 2022 Q2 is less pronounced than the Bank of Russia assumed in its April baseline scenario. [It] estimates that the 2022 GDP decline could be lower than forecast in April," which was a contraction of 6%. The Bank also said it was taking into account the "economic transformation process" occurring in the Russian economy. The ruble remained above 60 rubles per dollar and rose slightly.