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Oil Exporters to the Euro's Rescue?

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When a boat springs a leak far from shore, it is customary for all hands to man the pumps—be they friends or enemies, passengers or crew. Every individual's survival depends on the actions of his or her compatriots. So it is with the global economy today.

Nearly everyone recognizes the interdependence of all nations and all regions. Strangely, though, one group with an enormous stake—energy-exporting countries—has been content with watching, saying nothing and doing nothing. It has, as it were, let others man the pumps.

Yet energy-exporting countries have more at risk than any other participant in the world economy. Everyone knows that global economic growth will slow if the euro crisis plunges Europe into deep recession. Many believe this slowdown would be worse than the Great Recession. Oil and natural gas prices would surely plummet if these forecasts proved correct.

Between July and December 2008, crude oil prices dropped from \$145 per barrel to \$32 per barrel. Between 2008 and 2009, natural gas prices fell 30 percent in the European Union. The 2008–09 price declines were

arrested due to the combined efforts of the Organization of Petroleum-Exporting Countries (OPEC) and central banks. Oil-exporting countries cut production. At the same time, commercial banks purchased large volumes of oil as investments, using money supplied by the US Treasury and Federal Reserve. The banks' actions removed more oil from the market than OPEC and earned those firms good returns.

Should a serious global recession occur, the global oil and gas price collapse in 2012 would likely be larger than the 2008–09 decline for two reasons. First, oil-exporting countries would be alone. The financial reform mandated by Senator Chris Dodd (D-CT) and Representative Barney Frank (D-MA) would prevent banks from intervening. Furthermore, central banks would likely look askance at the idea of advancing monies to help commercial institutions accumulate commodity inventories.

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The price decline would also likely be greater because global oil and natural gas use would not rebound quickly in what would be a less-vigorous economic recovery. Oil and gas consumption fell briefly in 2009 and then surged ahead, thanks to the United States and China adopting Keynesian stimulus programs. China's effort was particularly noteworthy and all commodity markets felt its impact. This kind of support would probably not be forthcoming in 2012.

Next year will be, as they say, different from 2009. Europe is pursuing an aggressive austerity program, which will plunge many of its countries into serious recession. The United States is also following a less stimulative economic program as a result of the impasse in Congress. Growth in China is moderating as well.

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Oil and gas exporters can expect a very large, sustained drop in their exports' consumption if the euro crisis progresses to collapse. They can also anticipate revenue plunging as it did between 2008 and 2009. According to the US Department of Energy, OPEC income fell from nearly \$1 trillion in 2008 to \$600 billion in 2009. No doubt Russia's export profits decreased as well.

Energy-exporting countries would likely experience greater losses in 2012 should Europe fail. These losses would come at a critical time for several Middle Eastern countries. The Arab Spring has swept away one government after another in the region. The regimes still in power have used oil revenues to buy off their citizens. An oil and gas price collapse would cut off the income required to fund these policies.

Given these circumstances, energy-exporting countries should be working feverishly with the International

Monetary Fund (IMF) and the European Union. They, along with China and other large holders of foreign exchange reserves, should lend to the IMF to help it construct an emergency lending facility with capacity of more than €1 trillion. The fund, administered by the IMF, would be used to buy bonds issued by Greece, Italy, Spain, Portugal, and Ireland. The goal should be to bring interest rates on long-term bonds down to 3 percent. Simultaneously, efforts should be redoubled to fix the economic problems in the troubled nations and restore balance to their budgets. This will be practicable only if interest rates are much lower.

Lower interest rates—a seemingly impossible target at this point—are easily achievable if energy-exporting countries help finance the purchase of a large number of bonds. Of course, their leaders will assert they have problems as well and thus do nothing. Such a response would be a mistake, as these nations likely would suffer even greater ravages and deprivations as a result. Officials from energy-exporting countries need to think of the sinking boat and join in the bailout effort. They might also recall the advice of the American patriot Benjamin Franklin, who once warned, “We must all hang together, or assuredly we shall all hang separately.”

Some in Europe, the United States, and Asia may read this commentary and conclude that a possible energy price collapse strengthens the argument for letting the euro fail, thinking lower prices would boost global growth. This view is wrong. An energy price collapse would increase disruptions in energy-exporting countries, promote economic ills in some consuming nations, such as Canada, and almost certainly start yet a third, even more violent, economic cycle.

It is time for everyone to man the pumps.

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