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Subject: 206. An Urgent Red Team: Oil Oligopoly Effects on Prices, G-20 Recovery, Exploration, Politics. Fresh Thinking = ?

Dear Dr. Fischhoff and Colleagues:

An urgent Red Team/National Academy of Sciences project should take a hard, independent look at conventional thinking about the global oil industry. It is an oligopoly. A theoretical (social science) perspective predicts that there are important and affordable political and economic options to increase oil production and reduce prices, for several years, to ease human suffering, speed economic recoveries, and reduce the brutal political conflicts and political stress/instability ahead that the DNI expects.

The assumption that nothing can be done may be untrue - and merely what the global oil industry wants governments and publics to believe. [There are already 1.4 trillion barrels of proven reserves at current prices (The CIA Factbook.- 2010 estimates.)] The Red Team/National Academy of Sciences project can run some interesting numbers about the unearned oligopoly profits of the Saudi government, the coefficients and stimulus/multiplier effects of different oil price reductions on faster economic recovery across the G-20, on government deficits and cumulated public debt, etc.

The magnitude of cartel price-fixing etc. can be established by the CIA's professional methods and based on inside information that is not available to Congress or the world public.

President Obama should see the numbers.

Testing Oligopoly Theory: Are Rates of Oil Discovery Too Low?

A Red Team assessment also should rethink whether there is too much of a lock-in, via the current industry structure, to Middle East oil supplies and risks of Middle East politics. It should test the textbook (causal) oligopoly theory before reaching any conclusion, but the theory predicts that world accommodation to this structure has slowed the rate of exploration, keeps prices too high, and innovation rates too low. [Also, it restricts entry of both new oil fields and competing local distributors: A useful policy paper would be: "Why Doesn't Wal-Mart Have Gas Stations?"]. Game theory in political science and economics predicts that the huge income concentrated in a core group of very sophisticated global players will lead to penetration and manipulation - perhaps, sometimes, corrupt manipulation - of the political systems of countries that might regulate the industry for the benefit of their publics. The Red Team should prepare a rigorous test of this political theory, across G-20 nations, as part of its report and analysis of options.

Accelerating Oil Discoveries: National Academy of Science Options?

The structure of the global oil industry also deserves a fresh and serious look because of the growing military costs of US regional involvement in the Middle East to sustain the availability of oil supplies. We could imagine that everything is winding down, and that nothing like the three recent wars will be repeated, but this could be wishful thinking.

It may be vital to our national interest and security, in the long run, to consider rapid development of a new global regime of antitrust laws to separate the current oil companies, and their economic incentives, for the rate of oil exploration. Exxon, Saudi Arabia, and other major players may receive maximum profit from keeping oil production and prices at about the current levels - and, thus, governments should act to assure that they

do not also control the rate of oil exploration.

These perspectives have been absent from such DNI forecasts as Global 2025 and Admiral Blair's testimony. Once a Red Team runs the numbers, it may be astonishing that governments have accepted, for decades, what - to an industry perspective - must surely be an ideal, highly profitable, oligopoly system operating to their national disadvantages. [To some people, especially economists, the US & global problem and its causes may have been obvious all along.]

For example, one of the interesting discoveries, accepted by the CIA, is that Canada now actually has vast proven and recoverable oil supplies (175.2 billion barrels) that are second only to Saudi Arabia (265 billion barrels)! Increasing competition and candid reporting may result in many more similar discoveries that give added flexibility. And that, retrospectively, will confirm the wisdom of a Red Team recommendation to change the structure of the global industry.

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<1> It is surprising, given that the US & global economy are so dependent upon oil, that the Wikipedia entry re oil prices and supplies shows so much data to be elusive. It also is worrisome that so much data appear to rely upon trusting industry self-reports and classifications (e.g., when "proven reserves" may have tax implications.) However, the theoretical predictions are clear: These are companies that can afford to hire the smartest strategists, analysts, lawyers, and accountants in the world. They know that they face inelastic demand curves and have many decades of experience of setting production rates by strategic calculation. We can assume that there are written calculations - that the CIA could usefully discover and document for the Red Team and President Obama, by its specialized methods - to verify the anti-competitive strategies and size of the planned oligopoly profits. These can inform political options for the US and other G-20 governments when they take a fresh look..

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