THIS IS THE SECOND PART OF NEWSLETTER #3

This just received article, highlights the negative cause and effect caused by a strategy of profit at all cost. If this is the Future, lookout when these Chickens come home to Roost.

From the NY Times, December 12, 2004
South America Seeks to Fill the World's Table
By LARRY ROHTER

LUCAS DO RIO VERDE, Brazil - Almost overnight, South America has driven a historic global shift in food production that is turning the largely untapped frontier heartland of the continent into the world's new breadbasket.

One of the last places on earth where large tracts are still available for agriculture, the region, led by Brazil, has had an explosion of farm exports over the past decade. The growth has been fueled by a combination of market-friendly economic policies and advances in agronomy that have brought formerly unusable tropical lands into production and increased productivity levels beyond those in the United States and Europe, challenging their traditional dominance of the global farm trade.

Sometime over the next decade or so, Brazil, which Secretary of State Colin L. Powell described as "an agricultural superpower" during a visit in October, hopes to pass the United States as the world's largest agricultural producer. But the trend is far broader and can be felt also in parts of Argentina, Bolivia, Paraguay and Uruguay, with a deep impact on the region's economy and environment. And it has spurred a debate that has mainly focused on expansion into areas where the Amazon rainforest is thought to be jeopardized.

"There has been a silent revolution in the countryside" since the 1990's, Brazil's minister of agriculture, Roberto Rodrigues, said in an interview in the capital, Brasília. The past four or five years in particular, he said, have been "characterized by spectacular growth and a huge increase in demand" abroad for foodstuffs, which has given Brazil "the capacity to compete with anyone."

The global effect has been powerful. In June, the United States imported more in farm products than it sold abroad, further evidence of its eroding position…
****

Oil: The Dividing Line Of The New Cold War
December 7, 2004

You remember the "peace dividend?" Those were the savings alleged to accrue to the US government after the collapse of the Soviet Union. For the most part, that dividend has proven to be as real as Enron's purported earnings. The US today spends about as much on its national defense as the next 20 countries combined. In fact, America is now spending as much on defense as it did during the height of the Cold War. Yet, in spite of this fact, many of the country's military leaders tell us they don't have enough money and that the Pentagon needs to buy more

modern and expensive weapons to assure the country's national security and, of equal importance, safeguard a steady stream of oil supplies.

A military coming up against the constraints of a "mere" $500bn budget is occurring against a backdrop of mounting military activity in the Middle East and substantially higher oil prices. Even more alarming from America's perspective, the country's vaunted military strength has little control over the latter. As the world's biggest producers of crude, the Gulf States and, increasingly Russia, have the final say. In fact, instead of the traditional ideological warfare between capitalism and communism, oil may very well become the foundation for a renewed cold war.

Oil and Russia: two sides of the same coin? America's increasing problems in Iraq are obscuring mounting signs of a renewed chill in the country's relations with Russia. Much of this centres on the so-called "great game", oil. In fact, virtually all of the recent political machinations in the region, including, not only the Iraq war, but also developments in Iran and the Ukraine's recently disputed Presidential election, can be best understood through the prism of oil pipeline politics.

True, the price of crude has recently fallen back from multi-decade highs, but it is undeniable that energy demand is still robust, notably in emerging economic giant China. On the supply side, investment in new refining capacity in industrial countries has been stagnant, and there is growing evidence of refining capacity limitations. Making matters worse for jittery oil traders is the growing suspicion that the major oil fields, particularly those in Saudi Arabia may be peaking (or coming close to it) and are being drawn down prematurely by secondary extraction techniques, like water injection. All of which makes Russia a key supply variable in this market, whilst China remains a huge new source of exogenous demand. These are new elements with which the US did not have to deal a mere decade ago when Russia was struggling in the throes of low oil prices, an imploding economy and outright kleptocracy, whilst China was still a net oil exporter.

The recent news of China's purported interest in acquiring some major oil producing assets in Canada, (along with the attempted takeover of Canadian base metals giant, Noranda) have raised some eyebrows in the world press, some hinting that China's economic foreign policy may be on the verge of a new leap forward. A clue to the fact that such anticipation may have totally understated the case was last month's signing of a mega-gas deal between Beijing and Tehran worth $100 billion. Billed as the "deal of the century" by various commentators, this agreement is likely to increase by another $50 to $100 billion, bringing the total close to $200 billion, when a similar oil agreement, currently being negotiated, is inked not too far from now.

The gas deal entails the annual export of some 10 million tons of Iranian liquefied natural gas (LNG) for a 25-year period, as well as the participation, by China's state oil company, in such projects as exploration and drilling, petrochemical and gas industries, pipelines, services and the like. The export of LNG requires special cargo ships, however, and Iran is currently investing several billion dollars adding to its small LNG-equipped fleet.

Some Iranian officials are hopeful that the China deal can lead to a fundamental rethinking of the

risks of doing business with Iran on the part of European countries, particularly Russia. It is noteworthy that the Putin government has been very close-lipped in regard to the nuclear controversies surrounding Iran.

Even short of a formal new energy alliance, the main outlines of a China-Russia-Iran axis can be discerned in their mutual threat perception. China still has grave suspicions of America's continued military support of Taiwan and its studiously ambiguous support of the PRC's "one China" policy. Iran is a well-known member of President Bush's "Axis of Evil". Russia remains uneasy over post-September 11, 2001, US incursions in its traditional Caucasus-Central Asian "turf".

In regard to the latter, for a decade Washington has backed the Turkish and Azerbaijan governments' efforts to steer the export of Caspian region crude oil away from Russia, whilst steadily increasing its military presence in some of the former nations of the old Soviet Union as a means of safeguarding potential future oil pipeline routes. The Russian government has always understood that this pipeline was part of the broader US strategy to cut all links with Moscow among the former Soviet states in the Caucasus, building a new economic infrastructure that would dissuade the Caucasus group from ever renewing these ties.

Renewed geopolitical tensions in the Ukraine should also be viewed in this context. An American-sponsored Ukrainian pipeline, designed to attract Caspian oil into Odessa port, on the Black Sea, and then pump it northwards to Brody, and thence into Poland and other central European destinations, has lain empty for almost a year. It would surely become a more politically viable proposition were the West's preferred Presidential candidate, Viktor Yuschenko, to triumph ultimately in the country's disputed elections. By contrast, the Russian government, together with Russia's oil exporters, have countered with a proposal for the Ukrainian government to reverse the oil flow in the pipeline, and pipe Russian crude southwards to Odessa, for tankering out of the Black Sea.

This course of action would be more readily embraced by the Ukraine were President Putin's preferred candidate, Viktor Yanukovich, to triumph unexpectedly in the proposed replay of last month's election. (As an aside, the controversy surrounding Ukraine election result provides a classic illustration of the resumption of the Cold War by stealth and the corresponding propagandizing in the press: although Russia's preferred candidate, Mr. Yanukovich did poll over 90% in two regions, Mr. Yushchenko polled over 90% in three. But somehow the first set of results has been deemed corrupt by the western media, whilst the second is clean.

The papers covering the recent election also fail to mention that the US has pumped hundreds of millions of dollars into the Yushchenko campaign, and that the exit poll organisations and other observers groups were 100% foreign funded – by the NED, i.e. the American state itself. This could explain why the opposition rallies have been able to whistle up hundreds of tents, laser light shows, plasma screens, sound systems, and why so many people have been bussed in so quickly: it takes quite a lot of money to organise a spontaneous revolution, as one can imagine.

In its own version of pipeline politics, Mr. Putin's riposte to the Americans has been to ally the

Russian and Iranian oil industries, and open up the shortest, cheapest and most lucrative oil route of all, southwards out of the Caspian to Iran. China has become another component of this strategy. Indeed, China's recent deals with both Kazakhstan (pertaining to Caspian energy) and Iran (pertaining to Persian Gulf resources) signify that the pundits have gotten it wrong until now: the purview of the new great game is not limited to the Central Asia-Caspian Sea basin, but rather has a broader, more integrated, purview increasingly enveloping even the Persian Gulf. Increasingly, the image of the Islamic Republic of Iran as a sort of frontline state in a post-Cold War global lineup against US hegemony is becoming prevalent among Chinese and Russian foreign-policy thinkers.

Until Vladimir Putin became president in 2000, Russian oil policy was dictated by an unholy alliance of the Russian oil producers (and its corrupt oligarchs) and the US government. The country's economic position was extremely weak during that period and the reign of King Dollar was in full flower. By then, under the guise of "economic reform", Russia had experienced an economic and social slump far worse than the Great Depression, and things were to get worse for another two years, until after the financial collapse in August 1998. The West vehemently backed Boris Yeltsin, supporting him even as stupendous amounts of money were stolen from an increasingly impoverished population. They cheered him on when he shelled the Russian parliament in 1993 (hundreds died in the subsequent fighting), and visited a campaign of hideous destruction on Chechnya. In the dying days of the Yeltsin regime, the US-controlled IMF poured a further $4 billion into Russia, most of which, it is now accepted, was simply stolen and put into private bank accounts.

The Putin Presidency has put an end to that. Although his campaign against Yukos has been widely condemned in the western press as "an assault on free enterprise", his actions appear less arbitrary when viewed in the context of what went on during the previous administration. The country's oil barons, including the Yukos chairman, Mikhail Khodorkovsky, and the now exiled Boris Berezovsky, were key figures in the Yeltsin regime, and specifically in its strategy of creating a class of so-called oligarchs who, having stolen massive amounts from the Russian state which they controlled, then supported Yeltsin in return. Under the guise of "reform" actively supported by the Clinton administration and IMF, the most profitable parts of the Russian economy were sold to "kleptocrats" at ridiculously low prices in rigged auctions, those Russian robber barons often even using cheap loans from the Central Bank for the purpose.

Only after this mass larceny was achieved did these same figures make grand noises about the need to establish a proper "rule of law" in Russia, a self-serving strategy designed to safeguard their ill-gotten gains. The west's own complicity in this shameful episode has seldom been commented on, even though it is crucial to understanding President Putin's "inexplicably" harder line against Yukos, the west generally and America more specifically.

As the oil price has strengthened, Russia's balance of payments surplus has exploded, as have its foreign exchange reserves. Its growing strength is a mirror image of America's increasing economic weakness. At the same time, President Bush is proving that he cannot lift Iraqi oil, and America has become increasingly bogged down in a 4th Generation type of guerilla war, which has further exacerbated the country's ongoing economic (and military) weaknesses.

Consequently, Mr. Putin is beginning to play the oil card more aggressively.

The Russian President was recently quoted in the Moscow Times, suggesting that Russia might switch its trade in oil from its current US dollar denomination to euros (much as Saddam Hussein did prior to the commencement of Gulf War II). This was cast in typically anodyne terms, but the implicit threat was not lost on strategic energy agencies, even if it hardly registered within US financial markets: "We do not rule out that it is possible. That would be interesting for our European partners. But this does not depend solely on us. We do not want to hurt prices on the market." Such a move could have far-reaching repercussions for the global monetary system and its balance of power, particularly in light of the dollar's accelerating descent in the global foreign exchange markets.

The Russians are not unique in contemplating this shift. In spite of protestations of loyalty to Washington, member nations of the Organization of the Petroleum Exporting Countries have cut the proportion of their deposits denominated in dollars by more than 13 percentage points in the past three years, largely in favour of the euro, according to the latest quarterly report of the Bank for International Settlements. The report said dollar-denominated deposits fell to 61.5 per cent of total deposits by members OPEC in the second quarter of 2004, from 75 per cent in the third quarter of 2001. The share of euro-denominated deposits rose to 20 per cent from 12 per cent over the same period.

Mr. Putin is therefore appealing to a potentially broad and formidable constituency. This is unsurprising: Russia's economic objectives increasingly dovetail to a large degree with the Euro bloc and those of the other oil-producing members of OPEC. The corollary of the dollar's weakness has been the sharp appreciation of the euro, in effect pricing European manufacturers out of vital export markets, without the eurozone receiving any significant countervailing benefit. Similarly, in acceding to dollar pricing, the members of OPEC in effect risk exchanging a prized and rapidly diminishing asset–oil–for a debauched currency, whilst preserving a currency reserve system with questionable benefits to those outside of the US.

Capitulating to dollar hegemony effectively perpetuates a monetary system which clearly serves Washington's interest. But does it serve the interests of Russia, Euroland, OPEC, or the largest foreign holders of US dollar assets in Asia? Were more commerce to be priced in euros, more reserves held in Eurobonds, this would go some ways toward strengthening the euro's long term foundations as a viable reserve currency alternative, whilst undercutting the pre-eminence of the dollar reserve currency system. As a key marginal producer of both oil and natural gas, Russia is now in an enviable position to catalyse this development.

To be sure, Cold War-type alliances are highly unlikely to be replicated completely in the current milieu in which a dollar reserve currency system is breaking up, without any obvious alternative to fill the void. But what is clear is that the changing dynamics of the oil market are creating renewed global fissures not unlike those which existed between Washington and Moscow during the Cold War era. The rise of oil against a backdrop of rising tension in the Middle East simply adds another substantial debit to America's mounting IOUs with the rest of the world, and likely presages accelerating economic and political weakness, which Russia, China and others will

increasingly exploit.

President Chirac of France, amongst others, has long harped on the desire for a new multipolar world. A long unstated
component of this has been the establishment of the euro as a viable reserve currency alternative to the dollar. Oil is also becoming an increasingly important variable in this strategy. But this ongoing dispersion of political and economic power is likely to be an unsettling, even dangerous period, given many countries' undeniable interest in deploying the oil weapon to expedite the end of America's global dominance. In any case, an American reckoning will also have economic consequences for the rest of the world and one shouldn't expect Washington to give up without a fight. The new cold war may therefore have very chilly consequences for the world's financial markets.

This article is a reprint from original material.

http://www.prudentbear.com/internationalperspective.asp