

MINORITY REPORT ON UKRAINE, OR WHAT'S VENEZUELA GOT TO DO WITH IT?

I freely admit to being the oddest of the quadruplets in the Emptywheel sensory deprivation pool, producing the quirky minority report from time to time.

Which may explain the following graphic with regard to current geopolitical tensions.



[Source: Google Trends and Google Finance]

As you can see, not every trending burp in the news about either Venezuela or Ukraine produced a corresponding bump in the fossil fuel market. Some trend-inducing news may have nothing at all to do with energy. It's quite possible I may not have captured other key businesses as some of them don't trade publicly,

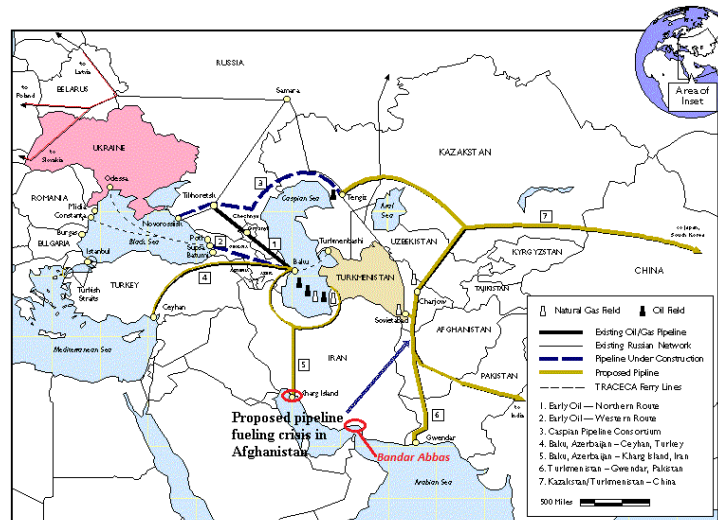
or are don't trade in a manner readily captured by Google Finance.

But there are a few interesting relationships between news and price spikes, enough to make one wonder what other values may spike with increased volatility in places like Venezuela (which has the largest oil and natural gas reserves in the western hemisphere), and Ukraine (which lies between the EU and the largest natural gas deposits in the world, and the world's eighth largest oil reserves).

Of course there's an additional link between these two disparate countries. Both of them have already seen similar upheavals in which the U.S. played a role – Ukraine's 2004 Orange Revolution, and the 2002 attempted coup in Venezuela.

When someone made noise about an Afghan Muslim being a key locus of the latest unrest in Ukraine, I couldn't help but think of the Trans-Afghanistan Pipeline for natural gas which has yet to be realized, primarily for a lack of adequate political will among nation-states with a vested interest in its success.

It also made me think of news reports from this past summer when Turkmenistan, sitting on the fourth largest natural gas reserves in the world, expressed a readiness to export gas to Europe. This would cut into Russia's sales, but not for a few years, requiring continuation of existing relationships for the next three to five years. Note the pipelines, existing and planned on the following U.S. State Department map (date unclear, believed to be post-2006).*



Oil and Natural Gas Export Infrastructure in Central Asia and the Caucasus

Source: U.S. Department of State.

[Ukraine and Turkmenistan colored for emphasis, along with cross-Ukraine natl gas pipeline. Iranian ports Kharg Island and Bandar Abbas emphasized.]

This in turn led me to revisit the rather interesting +30% break in natural gas pricing Russia offered Ukraine in December as well. This seemed like a rather odd move at the time considering global consumption is expected to increase, not decrease. Was this a chit to ensure continued natural gas pipeline cooperation? Or was this, in concert with a \$15 billion loan, merely a means to decrease volatility by easing a neighbor's economic pressures?

[Sidebar: the pipeline map above also puts Stuxnet and related cyberweapons in a different light. Stuxnet's original target may have been Iran's Natanz nuclear facility, but another related malware, W.32.Flamer also attacked oil pipelines at Iran's Kharg Island, through which 90% of Iran's oil exports are handled. Flamer hit in April 2012; in December 2012, another attack attributed to Stuxnet targeted the Bandar Abbas electricity plant. Bandar Abbas supplied power to neighboring provinces, which may have included Kharg Island.]

I'll leave it to you to make your own assessment as to what this all means.

I do think that a country like Ukraine, composed of so many easily fragmented factions, tetchy from a history of repeated tug-of-war, is easily gamed by the parties who have the most to gain from doing so. I also don't think all the parties actively pursuing fragmentation are nation-states, which may also be sucked in and gamed hard, spreading more fragmentation.

Further, Ukraine as well as Venezuela half a world away are both rather large pieces in a globe-sized "game." Tweaking either of them on this massive board creates ripples affecting far more than their immediate neighbors or their obvious military bedmates.

The only moves that might remove fossil fuels as a possible factor in tensions like that of Ukraine and Venezuela are a dramatic reduction in consumption based on conservation and radically increased investment in renewable alternative energy resources.

Which is pretty much what the U.S. Department of State and Department of Defense implied in their 2010 quadrennial reports.