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comment
Robin Mills

Thanks to stronger oil demand 2013 will not mirror 1986

It was one of the great oil shocks of all time, but a negative shock: in 1986, the oil price halved as Saudi Arabia opened the taps.

The Soviet Union collapsed not long after; the major oil exporters and international oil companies endured a lost decade and a half.

Now, Professor Paul Stevens of the United Kingdom think tank Chatham House, writing in the *Financial Times* has pointed to the danger of a similar crash. But does 2013 really look like 1986?

The dramatic Saudi action was a response to three intersecting trends that had made the kingdom's policies untenable. Following the 1973-74 and 1978-80 oil crises, the price went up by a factor of 10, plunging the industrialised world into deep recession.

Consumers sought more efficient vehicles; large quantities of oil were still burnt for electricity generation and could be easily replaced with gas, coal and nuclear power. Global oil consumption fell 10 per cent from 1979 to 1983.

Oil production outside Opec responded to the high prices, accelerating high-cost projects envisaged before the crises. New technology unlocked offshore fields in the North Sea and Mexico, and in Alaska's Arctic tundra, while drillers returned in force to the old hunting grounds of Texas. Opec had held half of the world oil market in 1973-74; by 1985, it was down to barely a quarter.

Opec tried desperately to defend an unrealistic price target, about US$60 per barrel in today's terms.

But while Saudi Arabia and its Gulf neighbours cut output, other Opec members such as Nigeria, Algeria and Iraq took advantage. Saudi Arabia produced 10.3 million barrels per day (bpd) in 1980, but by 1985 it was down to 3.6 million bpd. At that rate, its exports would soon have reached zero.

And so in September 1985, the Saudi oil minister Ahmed Zaki Yamani, who had warned all along that Opec's price targets were unrealistic, sharply increased production. He intended to cause a price crash that would hurt Saudi Arabia's Opec rivals, bring them into line and burn off high-cost competitors elsewhere.

The strategy worked – eventually – but only after more than a decade of low prices and another price crash in 1998. For his pains, Mr Yamani was sacked by the late King Fahd Al Saud in October 1986.

Today's situation is alike and yet not alike – more a pale shadow of 1982 than a doppelganger of 1985.

Mr Stevens argues that rising competition and anaemic demand will lead to political upheaval in oil-exporting countries – and so to more volatile (but presumably lower) prices. However, this is not inevitable.

Prices are still strong. Saudi Arabia is facing competitors within Opec, notably Iraq, but this is so far mostly a future challenger, facing significant hurdles.

Sanctions on Iran and the revolution and post-war protests in Libya have so far rescued the Saudis, who have had to cut back only moderately, from 10 million bpd in mid-last year to about 9.1 million bpd now.

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North American shale oil is driving strong non-Opec growth, and, contrary to what many commentators say, will continue to grow even if prices fall significantly. But other major non-Opec players such as Brazil have so far disappointed.

The biggest contrast with the 1980s is that global oil demand is still rising, driven by the Asian tigers and the Middle East itself. Electric, hybrid and gas-powered vehicles are making inroads but it is difficult to see a repeat of the early 1980s' 10 per cent drop in four years – comparable to removing the whole of China.

So Opec should still have time to set a realistic target – almost certainly lower than $100 per barrel – and adjust production, government budgets and development plans accordingly. Gradually massaging prices lower, to discourage competitors, would be wiser than for the Saudi oil minister, Ali Al Naimi to have to re-enact Mr Yamani's price war.

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The majority of countries in the Middle East are net food importers and governments subsidise food prices. Asmaa Al Hameli / The National

Trade finance adds up on any food chain

Commodity financing by governments remains an underexplored tool for countries seeking greater self-sufficiency. And it makes sense in any kind of economy, **writes Gerry Afentakis**

With rising food prices and securing food supplies topping the political agenda in the Middle East, governments should look at direct financing of the agricultural supply chain in order to limit foreign dependency and bring greater stability.

This is not a new issue. Since the year 2000, the issues of food security and food-price inflation have established themselves firmly in the minds of policymakers worldwide. This is a period during which the world's population has grown by more than a billion and the World Bank Food Price Index has increased by 300 per cent.

This rise in food prices and lack of sufficient foodstuffs has proven to be one of the major catalysts for much of the civil unrest witnessed not only throughout North Africa but across the globe.

For import-dependent countries, securing access to long-term food supplies has never been of more critical importance.

Not long ago, targeted economic aid or direct investment would have been the avenues for importers to ensure access to overseas food production.

Today's reality of economic austerity and stagnant growth has forced governments to place the resolution of domestic issues above pursuing risky aid or investment related foreign policy agendas. In the Middle East particularly, the majority of countries are net-food-importers and governments provide subsidised food prices. This is increasing budget deficits and sharp food price rises are putting serious strain on domestic financial policy.

Within this context there emerges both an interesting opportunity and a solution: commodity trade finance.

A line of business historically dominated by banks, commodity trade finance remains a tool whose full potential remains largely underexplored by governments seeking a means of satisfying key foreign and domestic policy objectives.

Across the globe, almost every business or individual involved in producing, transporting or transforming agricultural goods shares the need for working capital loans in order to fund their business. This is commodity trade finance.

If it ceased to exist and the members of the supply chain were forced to rely exclusively on their own equity to finance the production, trade and processing of the food we consume, the world would plunge into famine tomorrow. In short, trade finance is the lifeblood that supports every member in the global and perpetual cycle that begins in a field and ends as a meal on our plates.

For example: farmers grow wheat then sell their produce to commodity traders who in turn sell to those who transform the wheat into consumable foodstuffs, such as bread. By providing the short-term loans to each of these participants, trade finance serves as a powerful and relatively low-risk means for the financier to integrate himself as a crucial link within the universe of food production and trade.

For those stakeholders seeking food security, this position comes with an obvious benefit: the financier is ideally placed to secure crucial access to the raw materials across the entire supply chain.

In addition, by financing the production of these agricultural goods the financier provides a livelihood to a quantifiable number of individuals and communities. In much of the developing world these are communities that otherwise lack access to conventional sources of credit. The financier is thus providing the resources for people to be self-sufficient, creating a durable foundation for economic growth and sustainable development.

This contribution to both the economic and the social fabric of the recipient's society buys the financier substantial goodwill and influence. It is from this goodwill that trade finance serves as a means of establishing and enhancing the bilateral sovereign relations that will serve as a solid foundation for future engagement.

For government, trade finance appears to be a compelling and unique proposition. By positioning itself squarely in the commodity supply chain government can cement relationships for future cooperation while simultaneously securing access to food supply and generating low-risk investment returns.

As for implementation, the challenge lies in setting up an institution with sufficient depth to reach both into and across a range of countries.

Kuwait's Kipco recently acquired FIMBank one of the world's few banks dedicated to trade finance. Whether this acquisition is a pure financial investment or whether it represents a strategic move remains to be seen. However, what is clear is that in addition to the foreign policy benefits, commodity trade finance represents a benign solution to one of our time's most pressing concerns – food security.

Gerry Afentakis is head of corporate development for EuroFin Asia Group, a merchant finance and wealth management company based in Singapore.

Prince William's two weeks a reminder of the flaws in parental leave

world view
Judith Warner

On the face of it, Prince William's decision to take two weeks of job-protected, paid statutory paternity leave is absurd.

An heir to the British throne can live without the approximately US$206 a week in taxpayer funds that men in the United Kingdom are entitled to receive if they take time off to welcome a baby.

But as a symbolic gesture, the prince's choice is, as the Brits would say, brilliant. For in William's subtle, necessarily apolitical, good-guy way, he has issued the boldest possible statement of support for true workplace equality between men and women. It's a message that was too quickly buried amid all the baby-naming hysteria. And it's one that we in the United States need to hear if we're ever going to get past the place where women have been mired for the past decade.

The US is totally out of step with Europe – and even with the free-market-friendly UK – when it comes to family-leave policies.

It is the only industrialised nation that doesn't offer new mothers any job-protected, paid maternity leave; the only developed country that doesn't guarantee paid sick leave; the only advanced economy that doesn't guarantee its workers any paid vacation time; and one of the only industrialised nations with no regulations to support flexible options for caretakers. But the US is just like the rest of the world in that whatever leave or flexibility options exist are primarily used by women and are perceived as tools to allow them to meet the unique demands of working motherhood.

The seemingly obvious fixes for this problem – more and better policies aimed at helping women balance work and family – have proved successful in keeping women at work, in at least some capacity. But they have been extremely disappointing so far in helping them advance and truly rise as far as their ambitions and talents might take them.

In Europe, where generous leave and flexibility policies exist to varying extents in every nation, the same pattern – of men steadily advancing while women "lean back" and stagnate – holds up. The sense of frustration now in the European Union, where only 3 per cent of chief executives and 15 per cent of board members are female, is such that some women's advocates, such as the French philosopher Elisabeth Badinter, argue that too much family-friendliness has proven to be the enemy of women's progress.

In Sweden, for example, new parents are entitled to more than a year of paid leave, then have the right to work an 80 per cent schedule for full-time pay until a child is eight years old. In the wake of the passage of a 2002 "use it or lose it" law requiring new fathers to take two months of leave or see those weeks deducted from a couple's total time off, almost all men now take the minimal paternity leave. Over the long term, however, mothers take almost four times as much time off from work as dads do, and they overwhelmingly work in low-paid, often part-time public sector jobs.

As a result, the British sociologist Catherine Hakim has argued, female representation in top corporate posts is strikingly low. Last year, women held just 22 per cent of senior management positions in Sweden. The Swedish government has convened a commission to examine the stalling out of women's progress.

Clearly, while leave and flexibility policies are good for children and for families' quality of life generally, they have not been good for the cause of women's workplace equality. In fact, as they are currently conceived and carried out, Robin Ely, an organisational behaviour expert at Harvard Business School, has argued, they have often had the perverse effect of reinforcing the status quo.

That's because, by focusing on women's difficulties with "balance" and "conflicts" over motherhood, they have conveniently avoided the larger issues – which, in the US, Ms Ely argues, chiefly turn around the pervasive macho culture of overwork that plagues men and women alike.

Judith Warner, a senior fellow at the Center for American Progress, is the author of Perfect Madness: Motherhood in the Age of Anxiety.

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