

Ethical considerations in the trading of energy products including speculation

Theme: Transparency and Accountability

Conference on Revenue Management in Hydrocarbon Economies

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What is right and wrong?

- In the realm of ethical principles distinguishing between right and wrong or 'good' and 'bad' is very ambiguous.
- The concept is generally subjective making it difficult to derive a definite distinction.
- Effectively, since there is no one body/institution to set an overall standard, it is the individual's responsibility to choose.

Ethical Principles

- Ethics are the moral principles and values that govern the behaviour of people, firms and governments regarding right and wrong.
- Unethical behaviour is tied to bribery, corruption and the abuse of power to achieve illegitimate personal gain.
- The first form of standards are represented by the laws and regulations of a country and then by extension a firm.

Examples of Ethical Doctrines:

Consequentialism or teleological theories

An action is morally right if:

- › The person doing it brings about the best attainable consequences in the situation,
- › the action would attain the best consequences if everyone did it in that sort of situation.
- › the 'goodness' or 'badness' of the consequences of the actions alone make them right or wrong, rather than anything intrinsically good or bad about the actions themselves.

Deontological theories

An action is morally right if:

- › It is required by duty or
- › permitted by duty and not in conflict with any other action required by another duty
- › It is based on acts of duty and standards of rationality rather than desire

Source: (Hull 1979)

Consequentialism- The Utilitarian Principle

- This is a naturalist approach that implies that no moral act (for example stealing or breaking a promise) is intrinsically wrong.
- the rightness or wrongness of an act is solely the matter of the non-moral good
- “which act will result in the greatest good for the greatest number of people?”

Source: (Marshall 2007)

Deontological – The Kantian Principle

- ◉ moral requirements are based on a standard of rationality
- ◉ Categorical Imperative – an absolute and universal moral obligation
- ◉ Kant is known for saying: “Act only on a principle all rational agents could act on’
- ◉ Eg; religious moral systems comprise categorical imperatives

Source: (Johnson 2008)

ETHICS IN GEOPOLITICS

- IRAN – the defiant
- VENEZUELA – the rebellious
- RUSSIA – the powerful

Ethics in Geopolitics

'man is by nature a political animal'

Aristotle's famous declaration on virtue ethics.

In modern day politics however, ethics and politics may be perceived as an oxymoron.

The concept is contradictory as politicians are considered to be the least trustworthy professionals.

Source: (Yahya 2011)

There are 2 factors that affect global energy markets:

1) Energy market globalization policies

Policy reform or trade-offs may be required to achieve success as globalization policies vary around the world. Energy policy choices shape the social, economic and environmental landscape of a nation and impacts on the future of that country. The vicissitudes of energy market globalization is unprecedented in its pace, range and depth but remains at the heart of economic development in every country.

2) Energy Security

Energy security remains a paramount concern among major consumer countries around the world and is surrounded by a myriad of problems. To derive a solution, a balance must be struck between the geopolitical, economic and environmental implications of energy.

IRAN – THE DIFIANT

Population - 77,891,220
(July 2011 est.)

GDP (Purchasing Power Parity) of \$928.9 billion (2011 est.) ranking 18th in the world

GDP Per Capita of \$12,200 (2011 est.) ranking 97th in the world

Poverty Rate- 44.5% to 55%

Source:
(Central Intelligence Agency 2012)

Although Iran is a major oil producer they are known internationally for their involvement in Nuclear Power development and even with threats of sanctions from the UN Security Council and other international communities, Iran remains defiant in its position on nuclear power proliferation.

Iran – the defiant

- Iran used the country's viability in the energy market to obtain support from world giants such as China and Russia.
- The EU sanctioned to place an embargo on Iranian oil imports effective July 2012 as a demonstration of their opposition to Iran's Uranium enrichment programs.
- Iran retaliated by threatening to stop oil exports to the Netherlands, Greece, France, Portugal, Spain and Italy.

Source: (Pascual and Elkind 2010), (BBC News MiddleEast 2012)

Iran – the defiant

- Iran has capitalized on the strength of its energy market liaisons and held fast to the nuclear power development programs as part of their energy policy alternative for energy security.
- The powerful Iranian leaders used the Utilitarian Philosophy to justify their own gains

VENEZUELA -- THE REBELLIOUS

Population - 27,635,743
(July 2011 est.)

GDP (Purchasing Power Parity) of \$368.8 billion (2011 est.)
ranking 35th in the world

GDP Per Capita of \$12,400 (2011 est.)
ranking 95th in the world

Poverty Rate - 26%

Source:
(Central Intelligence Agency 2012)

President Hugo Chavez, Venezuela's firebrand dictator is a known promoter of Populism internationally and has used this political ideology to urge support for his political will. He has been noted as saying, 'oil is a geopolitical weapon' and has used this for geo-economic advantage and geo-political domination.

Venezuela – the rebellious

- Nationalization Drive – foreign oil companies were given notice to reduce their stakes in the Orinoco Belt.
- The publicised intention of this decree was to nationalise key industries and use the revenues in social programs for the poor.
- This created an unhealthy investment environment for FDI.

Venezuela – the rebellious

- Venezuela has negatively influenced globalization by placing an intangible cap on technological development, ie the tar sands extraction technology.
- Chavez has used the rent-seeking nature of the resource cursed country to win points with the poor. Thereby ensuring political longevity.

Source: (Karl 2007)

RUSSIA – THE POWERFUL

Population -
138,082,178 (July 2011
est.)

**GDP (Purchasing
Power Parity)** of \$2.373
trillion (2011 est.)
ranking 7th in the world

GDP Per Capita of
\$16,700 (2011 est.)
ranking 70th in the
world

Poverty Rate - 13.1%

Source:
(Central Intelligence
Agency 2012)

Russia is the second largest exporter of oil and boasts of the world's largest proven gas reserves. They also facilitate the world's largest electricity grid. Russia's power not only comes from its economic strength but from its position as a key energy supplier in Europe as it controls over a quarter of the world's reserves.

Russia – the powerful

- Russia has no qualms about flexing their energy market muscle for political gain.
- Gazprom, the state-owned natural gas company holds a monopoly due to the corrupt investment environment and they use this to their advantage to secure long-term dependence from Germany and other European consumers.

Russia – the powerful

- The US promotes ‘New Start’
- The case study of the Iran-Russia affiliation is an excellent example of the complexity of geopolitics in energy.
- Energy by its very centrality explains its complexity. It is an indomitable task therefore to clearly identify the ethical consideration in the geopolitics of energy as the strategies and motives are bifurcated.
- Russia has successfully operated in ethical ambiguity with little to no repercussions and although the Utilitarian system can be applied, it was definitely reshaped to suit Russia’s purposes.

International Business

Multi-National Corporations in
Energy Markets

Oil Price Speculation

MNCs in Energy Markets

- Business ethics in a broad sense is the application of the same ethical principles and norms that would be applied to an individual.
- There is no systematic approach to business ethics except in the context of justice and honesty in buying and selling.

Unethical Behaviour in MNCs

- The Yacyretá hydroelectric dam - 'The Monument of Corruption'
- Halliburton - over \$180 million in bribes

Source: (Cavusgil 2012)

Oil Price Speculation

- Speculation creates a volatile artificial market
- the concept of 'Futures' contracts opened the door to speculation and tipped the traditional laws of supply and demand in the oil and gas markets.
- predictability decreased and the risk factor increased

FDI hindrances for MNCs

○ Corruption:

- > they do not wish to be associated with countries with low transparency scores as this is seen as a hindrance to economic development and hence not good for their business
- > corruption hinders competition and therefore makes it even more difficult for the country's energy sector to move towards an open market

Speculation: Good or Bad?

GOOD

- essential to the efficient flow of oil markets?
- Large profits for investment banks, hedge funds and oil companies
- Not morally unethical since it makes perfect economic sense?

BAD

- Skyrocketing oil prices
- increased financialization of oil futures markets
- Price volatility
- Increased co-movement between oil futures prices and other financial asset and commodity prices

FAVAR MODEL

- Juvenal and Petrella (2012) used a factor-augmented vector autoregressive (FAVAR) model to examine the role of speculation as it relates to the oil price in supply and demand forces. What they found is that although speculation shocks are as a result of a shift in the expected future oil price, they are the second most important driver of oil price dynamics.

Concluding Remarks

Trinidad and Tobago

TRINIDAD AND TOBAGO

Population - 1,227,505
(July 2011 est.)

GDP (Purchasing Power Parity) of \$26.83 billion (2011 est.)
ranking 112th in the world

GDP Per Capita of \$20,300 (2011 est.)
ranking 61st in the world

Poverty Rate - 17%

Source:
(Central Intelligence Agency 2012)

Trinidad and Tobago is not only known for its vibrant oil industry but also for its high levels of corruption. The Trinidad and Tobago Transparency Institute reported that from a list of 183 countries surveyed in 2011, T&T placed 91st on the Transparency International Corruption Perceptions Index with a score of 3.2 out of 10. The energy and energy industries sector in Trinidad is a significant contributor to this situation.

Trinidad and Tobago – Land of Oil, Music and Corruption

- Despite the high levels of corruption, Trinidad and Tobago has earned a reputation as an excellent investment site for MNCs and historically has been seen as politically stable which is an important criterion is for potential investors.

Final Remarks

- Ethical and morally worthy behaviour are not clear, 'black and white' definitions.
- Morality and ethical judgement are subjective and the notion of right and wrong can be twisted and moulded based on perception and interpretation.
- in the geopolitics of energy these simple definitions are nullified and invalidated in favour of less definite borders.

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