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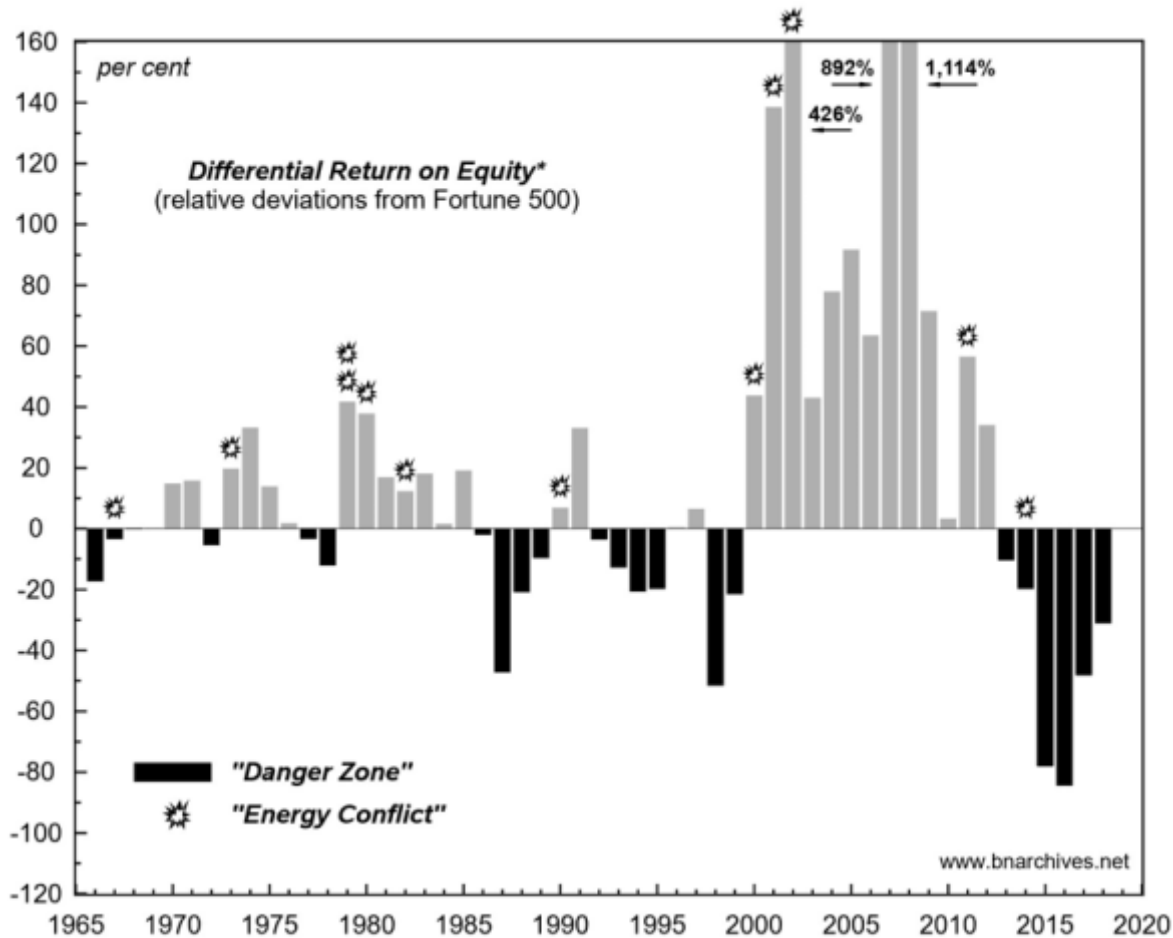


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Still in the danger zone

January 17, 2020 [Editor](#) [Leave a comment](#) [Go to comments](#)

from Shimshon Bichler and Jonathan Nitzan



Energy Conflicts and Differential Profits: The Petro-Core vs. the Fortune 500

* Return on equity is the ratio of net profit to owners' equity. Differential return on equity is the difference between the return on equity of the Petro-Core and the Fortune 500, expressed as a per cent of the return on equity of the Fortune 500. For 1992–3, data for Fortune 500 companies were reported without SFAS 106 special charges. **NOTE:** The Petro-Core comprises British Petroleum (BP-Amoco since 1998), Chevron (with Texaco since 2001), Exxon (Exxon-Mobil since 1999), Mobil (till 1998), Royal-Dutch/Shell and Texaco (till 2000). The last data point is for 2018. **SOURCE:** Updated from 'Profit Warning: There Will Be Blood', *Real-World Economics Review Blog*, December 11, 2017, Figure 3. Data from *Fortune*, *Compustat* through WRDS and Mergent.

In December 2017, we posted a *RWERB* entry, titled '[Profit warning: there will be blood](#)'. We warned that, although the Weapondollar-Petrodollar Coalition might no longer be in the Middle East driver's seat, the oil and armament companies, the region's oil-exporting autocracies and various non-state groups were all keen on seeing their oil incomes rise from record lows. And we observed that, in this context, **'the prospects of a new energy conflict, whether premeditated or coincidental, seem extremely high'**.

The above chart, which is updated from Figure 3 in our original 2017 article, shows the differential return on equity of the Petro-Core (the leading publicly-traded oil companies) relative to the Fortune 500: when the bars are grey, the Petro-Core beats the average (having a higher return on equity than the Fortune 500); when the bars are black, it trails the average (showing lower returns than the Fortune 500). These latter periods denote 'danger zones', indicating that the region is ripe for a new energy conflict. The actual eruption of such conflicts is marked by an explosion sign. The figure demonstrates three important regularities:

1. Every energy conflict save one was preceded by the Petro-Core trailing the average. In other words, for a Middle East energy conflict to erupt, the large oil companies first have to differentially *decumulate* (trail

the average). The sole exception to this rule was the 2011 burst of the Arab Spring and the subsequent blooming of ‘outsourced wars’.

2. Until 2014, every energy conflict was followed by the oil companies beating the average. The reason is that differential oil profits are intimately correlated with the relative price of oil (compared to the overall price level); the relative price of oil in turn is highly responsive to Middle East risk perceptions, real or imaginary; these risk perceptions tend to jump in preparation for and during armed conflict; and as risks mount, they raise the relative price of oil and boost the differential returns of the oil companies.
3. With one exception, in 1996-97, the Petro-Core never managed to beat the average without a regional energy conflict. In other words, the differential performance of the oil companies depended not on production, but on the most extreme form of sabotage: war.

Given these regularities, we observed that the experience since 2015 was exceptional:

“In line with the first regularity, the danger zone that opened up in 2013 was dully followed by the 2014 onset of the so-called third Gulf War. But then, for the first time in half a century, the first regularity was *not* followed by the second. Despite the ongoing hostilities – in Syria, Iraq and Yemen, among other places – and notwithstanding mounting regional instabilities hastened by dwindling petroleum export revenues, oil prices have *plummeted*, and the oil companies continue to *trail* the average. Moreover – and ominously – the *magnitudes* of the price drops and differential losses are unprecedented”.

We can only hope that the current round of Middle East hostilities won’t be proportional to the size of its current danger zone.

The original 2017 *RWERB* entry: <https://rwer.wordpress.com/2017/12/11/profit-warning-there-will-be-blood/>

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1. Jorge Buzaglo
January 17, 2020 at 4:52 pm
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“[T]he prospects of a new energy conflict, whether premeditated or coincidental, seem extremely high.”

F. William Engdahl seems to agree: “We are clearly in for some very nasty trouble in the Middle East as Washington tries to deal with the unintended consequences of its recent Middle East actions.” (See: F. William Engdahl, “Unintended Consequences: Did Trump Just Give the Middle East to China and Russia?,” Information Clearing House, January 16, 2020.)

- o Craig
January 17, 2020 at 6:23 pm
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Changing the monetary and financial paradigm would enable us to fund the mega projects necessary to leave our dependence on oil, and make the bottom up green consumer products that are a part of those projects imminently affordable to everyone.

Deuteronomy 30:19 I call heaven and earth to record this day against you, that I have set before you life and death, blessing and cursing: therefore choose life, that both thou and thy seed may live.

2. [Michael Monterey](#)

January 19, 2020 at 3:20 am

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Cool! Thanks y'all! I couldn't imagine mo betta grafix revealing the market potentials of ecocidal mass-mania. In other words, I agree with Craig, 100%. I just wish that at least 1 other person would acknowledge & Share my suggested transitional plan:

Get all the other 99%ers you knows to play Monopoly, the board game, by the 0.0000!%ers' winning-class* rules:

1 > So, instead of 1 player being the Banker, he/she is the Fed-cartel & Treasury (using the Fed's fractional reserve banking policy).

2 > Another player gets to play the Kleptocrat+IRS role, with lots of deficit spending.

3 > Let the Fed & Kleptocrat have secret meetings & change the rules whenever they want.

4 > Let all other players borrow the Fed's play money, and when they run out, they borrow more, and more, and more, at compound interest.

5 > Optionally, let the impoverished 99% players sign-up for welfare or screw their fellow victims & become lobbyists, plutonomists or accountants.

6 > Require tax filing & payments once every 4 turns.

I guarantee the game will not really be any fun, but it might be truly educational.

3. Ken Zimmerman

January 20, 2020 at 3:38 pm

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These are not markets in the sense supposedly laid out in economics textbooks. They are socio-political-diplomatic-military institutions. They have been extremely sensitive to upsets in any one of these areas or combinations of two or more since the 1970s. The US has taken advantage of these sensitivities but still has no clear understanding of the likely results of any of the potential interventions. In other words, the US has been flying blind for over 50 years. So, the more reckless the intervention the more unpredictable the consequences. Sound like a recipe for disaster? All we needed was someone crazier and more stupid than George W. Bush to pursue a disaster. Now we have him in the White House.

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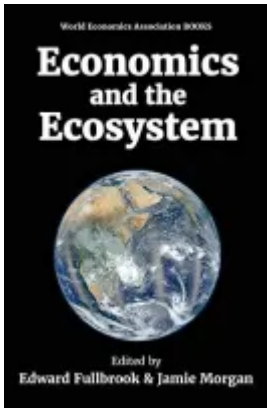
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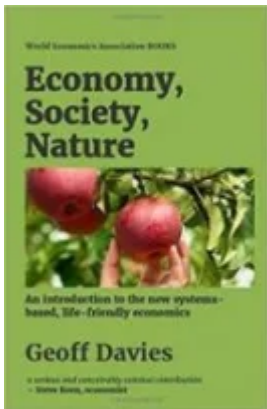
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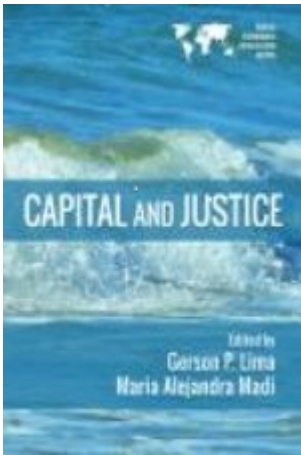
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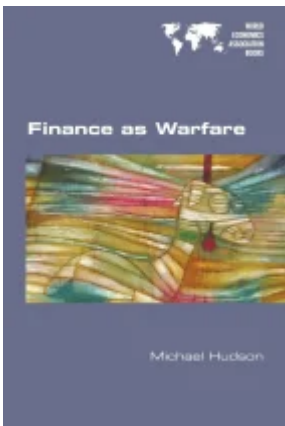
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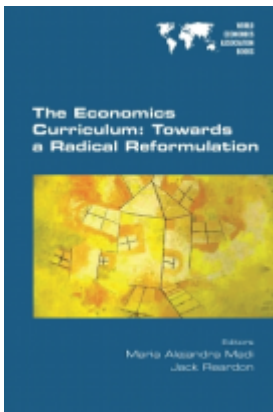
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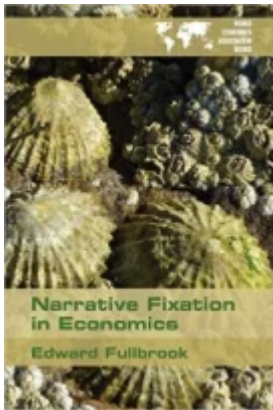
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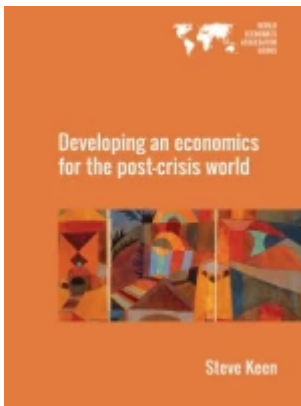
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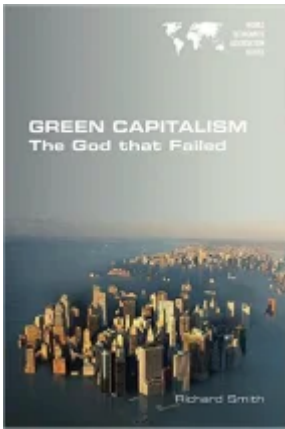
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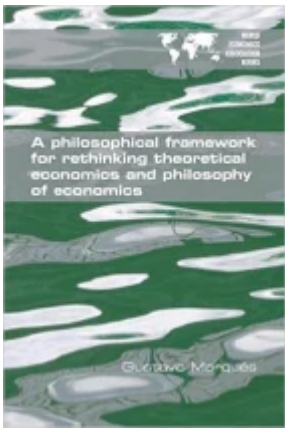
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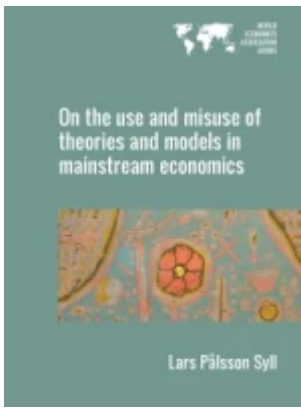
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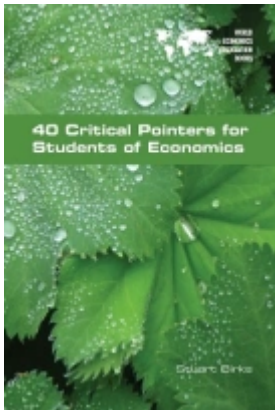
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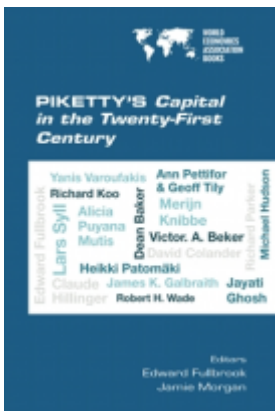
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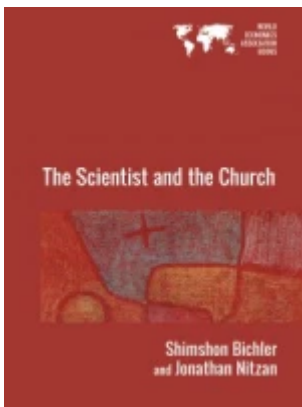
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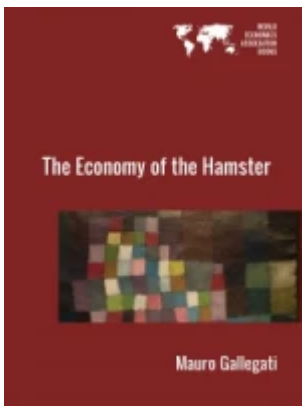
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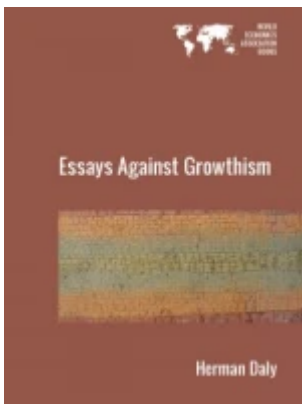
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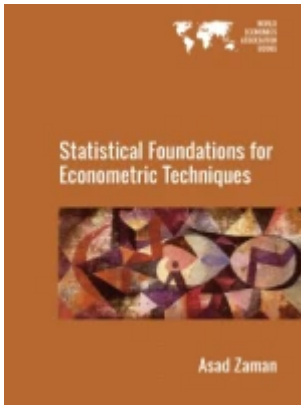
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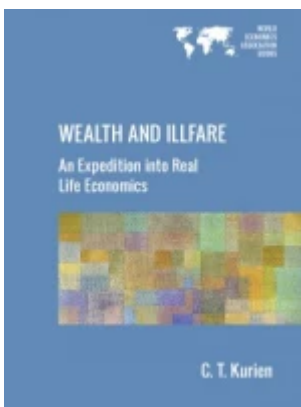
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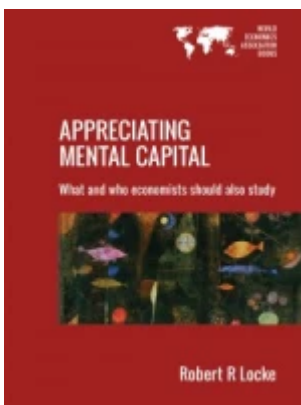
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