

INSIDE RUSSIA'S ENERGY NARRATIVES

Forecasting is one of the key instruments used to understand the future and plan certain actions. In particular, economic forecasts are important as they are supposed to reduce the level of uncertainty and risks that are critical to economic performance.

However, the question is how forecasts really work in practice and what their real intention is. The focus of this research is forecasting in the energy sector. Because this sector represents one of the most closest expert environment in economic forecasting.

The study conducted shows that the real goal of forecasts in this field is to influence the present, and not to accurately predict the future.

Good forecasts achieve this by adopting marketing tools and using the necessary figures to support the key idea “promoted”.

Considering that any forecasting model has a huge range of probabilities, it is not difficult to pick up necessary data without any manipulation or misrepresentation.

This is an irony of forecasting, where very different, even opposite results are scientifically correct.

The fact that the goal of economic forecasts is not to predict the future but to influence the present is not negative. It is a reality that decision makers should consider when using these forecasts.

At the same time, understanding the nature of forecasts can help activists create more powerful works that can trigger positive changes in Russia, and not just be left on the shelf.

The main research material were reports made by governments, corporations, NGOs and academic institutions. Tracking of circumstances and real goals of forecasts was the general goal of research and a tool to confirm a hypothesis.

21 interviews¹ with experts were conducted to prove the initial hypothesis. Experts represent different backgrounds. From Government to corporations and academic institutions. These interviews provided insights on the industry and helped to find the actual mechanics and motives which move forecasters in energy sector.

371 forecasts were collected for analysis. Majority of forecasts were long-term, made by international institutions, governments and corporations. 90% of this amount were global forecasts and 10% were regional scale such as gas consumption forecast for European Union.

KEY STAKEHOLDERS IN FORECASTING

In making forecasts, four parties are usually involved²: the ordering party, finance party, contractor and designers, who are usually outsourced by contractor.

The ordering party and contractor are the ones who have their own agenda. The “manipulation” is a result of them. The ordering party has an idea, they set the agenda, but it is the contractor who can translate this idea into forecasting language and integrate it to a forecast so that it looks proper and reliable.

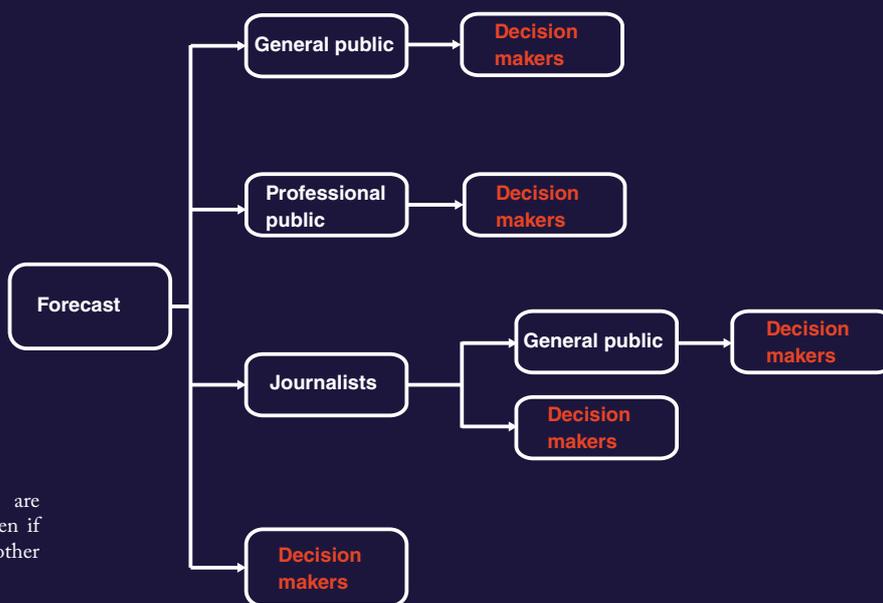
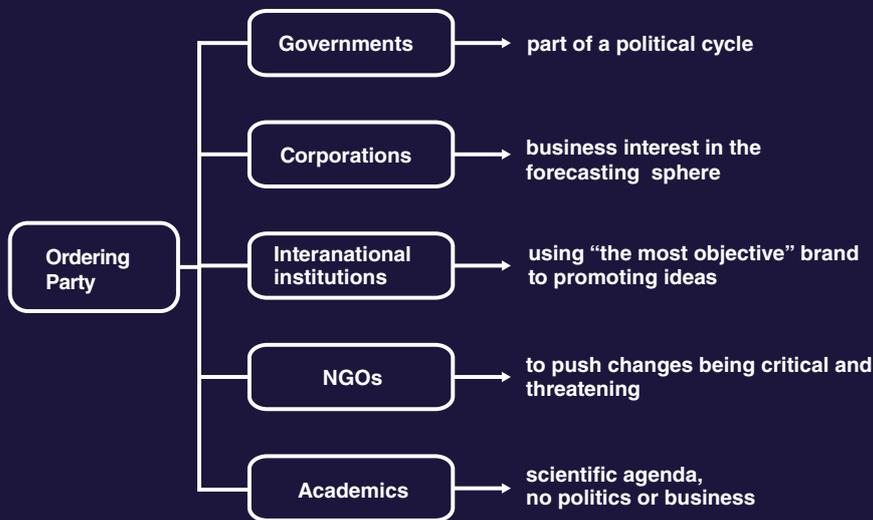
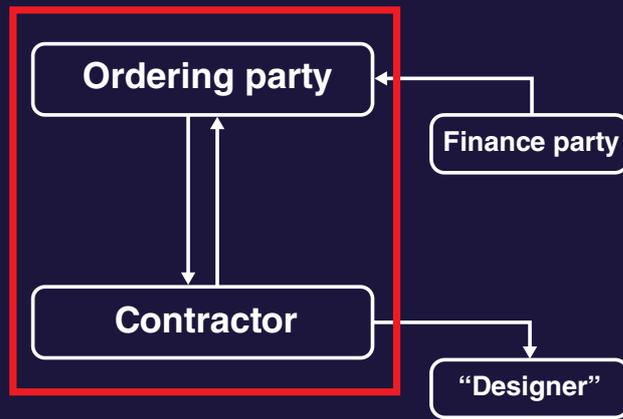
INTERESTS OF ORDERING PARTY

Governments. All forecasts about internal situations in the country are a part of the political cycle; in other words, propaganda.

Corporations. By definition they are “with interest” in their industry, so nobody in the scientific community can consider them as objective. You cannot prove that they are manipulative. But at the same time if someone says it is objective, they should prove it. This is impossible because the argument that forecaster has its commercial interest in a forecasting area is enough to confirm that it is not objective. But it is not enough to prove manipulation. International organizations. Opposite to corporations by definition and are considered as objective. But regardless if they have this place in the group, they use it to promote their ideas. United Nations, World Bank and other major global institutions are optimistic or neutral as a rule. Because they are very important players and if they forecast negative future it is more likely to happen then because everybody will believe in it. That is why they are trying to give a range of scenarios. Their goal is to push some stakeholders to action.

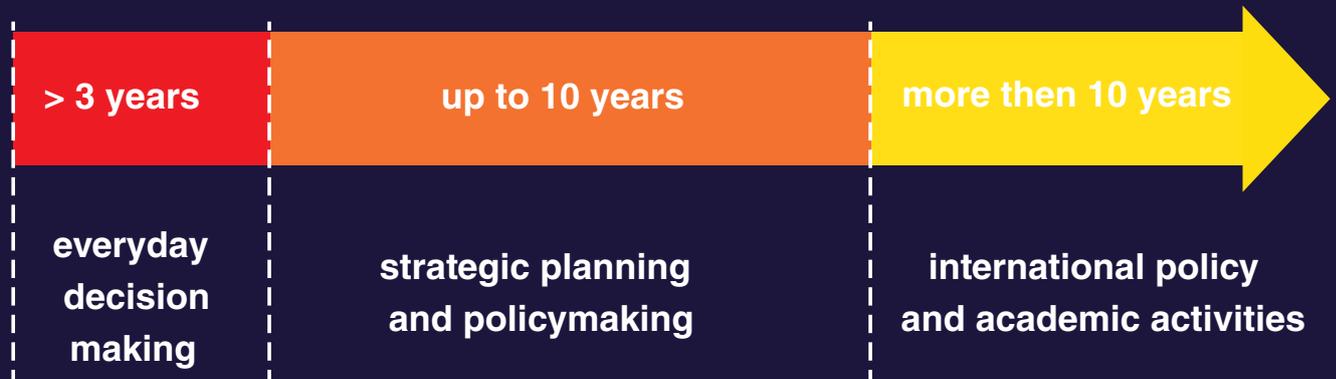
Academics. Their agenda is scientific and they are not involved in politics if they are the ordering party. They show how professional and up to date they are.

Non-governmental organisations (NGOs). Their agenda is to be very critical. The more they highlight the risks, the more attention they receive. Otherwise they are not considered by decision makers and general public.



Decision makers are final "consumers" even if forecast influenced other group of people first.

FORECASTING HORIZONS AND PURPOSE OF USE



WHAT INFLUENCES THE FORECASTING PROCESS? NOT ONLY INTERESTS

Psychological factors. Apart from the conscious motivation to shape forecasts according to a specific goal, there are also factors which influence forecasting process such as confirmation bias, selective recall, biased evaluation, and risk perception, one of the most important factors in this group. People would rather leave things as they are. It is called aversion to loss: people are more concerned about the risk of loss than they are excited by the prospect of gain.

Socio-cultural factors. National and cultural differences are extremely important in forecasting and attitudes towards future. Probably Geert Hofstede³ models are important from this point of view because they provide an overview of future perception by different socio-cultural groups. Typology of differences in forecasting according to location-specific socio-cultural differences are necessary to consider while doing analysis of forecasting.

Biases. People tend to overestimate the extent to which others share their views, beliefs, and experiences-the false-consensus effect. There are several cases:

- Confirmation bias, the tendency to seek out opinions and facts that support our own beliefs and hypotheses
- Selective recall, the habit of remembering only facts and experiences that reinforce our assumptions
- Biased evaluation, the quick acceptance of evidence that supports our hypotheses, while contradictory evidence is subjected to rigorous evaluation and almost certain rejection; we often, for example, impute hostile motives to critics or question their competence
- Groupthink, the pressure to agree with others in team-based cultures

ANY FORECAST INFLUENCES DECISION MAKERS EVEN IF IT WAS NOT A “HIDDEN” GOAL

“...WHEN YOU SHOW YOUR CLIENT A FORECAST IT CHANGES THE SYSTEM YOU WERE TRYING TO PREDICT. NEW INFORMATION ABOUT THE FUTURE CHANGE HIS DECISIONS. IN FACT WHEN PEOPLE LEARN A NEW FORECAST IT CAN'T BE TRUE ANYMORE BECAUSE IT WAS ABOUT SITUATION WHEN NOBODY KNEW ABOUT THIS FUTURE. THAT IS ONE OF THE REASONS WHY MANY FORECASTS ARE WRONG. BUT THEY CAN BE GOOD INSTRUMENTS TO CORRECT THE SYSTEM...”



Michail Yulkin, RSPP

KEY APPROACHES FOR FORECASTING

1. Based on current policy. In fact it is a projection of current trends. World Energy Outlooks by International Energy Agency is from this group. This group of forecasts is the most general and provide an overview what can happen if current trends will be projected into the future. Authors of those forecasts are trying to focus maximum on 20–25 years time period. Of course there are forecasts for 2050, but they are mostly made for academic purposes and showing them on conferences.
2. Based on new policy implementation value and showing that it is possible to achieve a desirable future. Example of this group of forecasts is “The Energy Report. 100% Renewable Energy by 2050” made by WWF, Ecofys, OMA published in 2011. Another case is “Energy [r]Evolution a Sustainable World Energy Outlook” by greenpeace Greenpeace International published in 2010 or International Energy Agency 450 ppm scenario⁴.
3. Comparison of cost of inaction and new policy implementation. This is a developing group of scenarios. The main problem of which is absence of reliable methods to calculate all economic risks and costs such as climate change. One of the first trials was Stern Report⁵. But still this group of forecast is not developed well and is expected to be developed in 5–7 years⁶.

PR AND KPIS IN FORECASTING

Forecast producers who publish forecasts send a press release to journalists, trying to ‘sell’ their forecasts to them. Then the PR department monitors how many references were in mass media to their report. It is a PR tool for the company, and the number of publications is a way they measure success. If there is nothing interesting in this report, nobody will write about it and nobody will know about it. That is why if a forecast released before significant international event, it is more likely to be discussed more and have more media hits.

That is the reason why scandal is always good for the promotion purposes. A good example when scandal is actually used for discriminating a forecast is “Climategate”. Began in November 2009 with the hacking of a server at the Climatic Research Unit (CRU) at the University of East Anglia (UEA) by an external attacker. Thousands of file copies and emails were published in internet. Which gave an opportunity for mass media to start a huge scandal about scientists to manipulate facts to prove climate change. It was called by daily Telegraph: The worst scientific scandal of our generation in a newspaper published 28th Nov 2009 just before Copenhagen Climate Summit. And had an extremely big impact on the Summit.

“...PR DEPARTMENT IS RESPONSIBLE FOR DISTRIBUTION OF FORECASTS. AND THEIR KPI IS A NUMBER OF MEDIA HITS. THERE IS NO KPI FOR POSITIVE OR NEGATIVE HITS AND NO KPI FOR PRECISION OF THE FORECAST...”



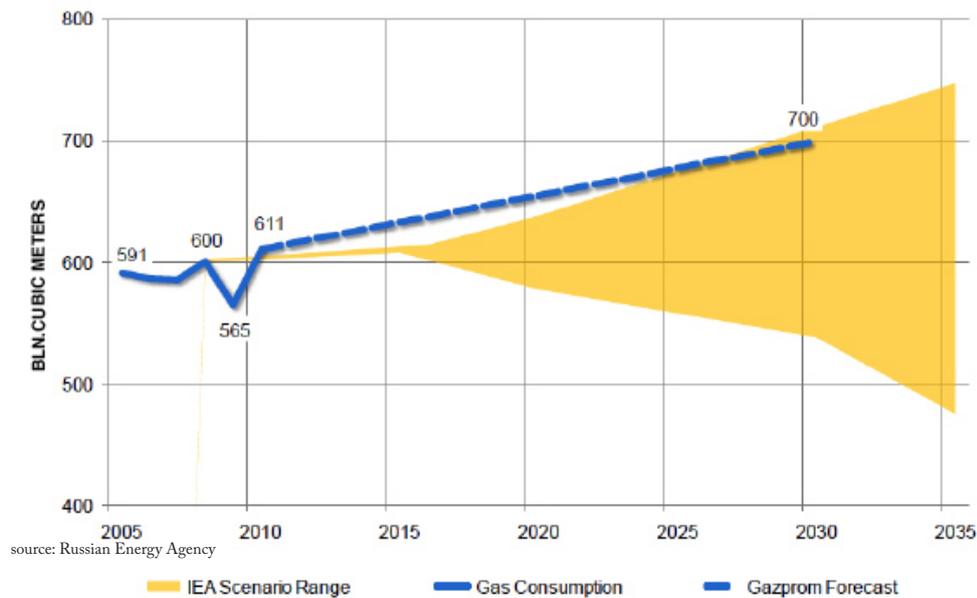
Anastasiya Laukkanen, CNN

FORECASTERS' TRICKS AND MOTIVES:

DO NOT FORECAST A NEGATIVE FUTURE FOR YOURSELF

This example of possible motivation is based on Gazprom's vision about future of the EU Gas market. As you can see on the image, Gazprom is more positive than the most positive International Energy Agency's scenario. One of the reasons for that is influencing market price for gas.

2. Since Gazprom's position is that market will grow it's easier for them to keep high price. Considering that in a short-term it's impossible for EU to diversify gas supply in a long term high price will hit Gazprom's export because market will be transformed due to a high short-term price. That's why Gazprom in future can lose a significant part of the market it forecasts to grow.



HOW SUPPORT OF GENERAL PUBLIC WAS CREATED ON EARLY DEVELOPMENT STAGES BY SHOWING AN "AMAZING" NUCLEAR ENERGY FUTURE

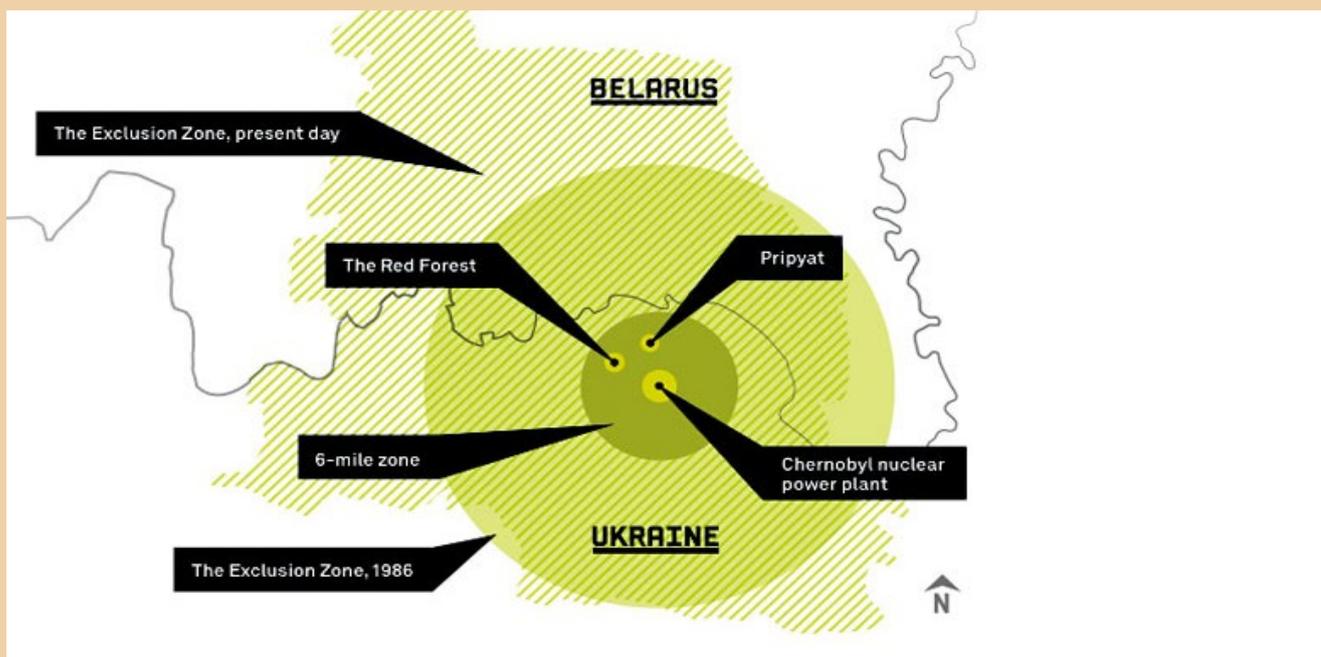
"OUR CHILDREN WILL ENJOY IN THEIR HOMES ELECTRICAL ENERGY TOO CHEAP TO METER..."

Lewis L. Strauss,
Chairman of the United States Atomic Energy Commission,
his speech to the National Association of Science Writers in New York City on September 16th, 1954



MARKETING TOOLS HELP TO SEEK FOR PUBLIC SUPPORT

At the beginning of nuclear energy industry there was a big variety of positive marketing messages. Lewis L. Strauss, Chairman of the United States Atomic Energy Commission made a statement which became a classic of that period, "Our children will enjoy in their homes electrical energy too cheap to meter..." and the whole period was penetrated with optimism. That helped politicians and corporations push their plans forward and construct new power stations.



WHEN INFLUENTIAL PEOPLE MAKE FORECAST, REALITY CHANGES

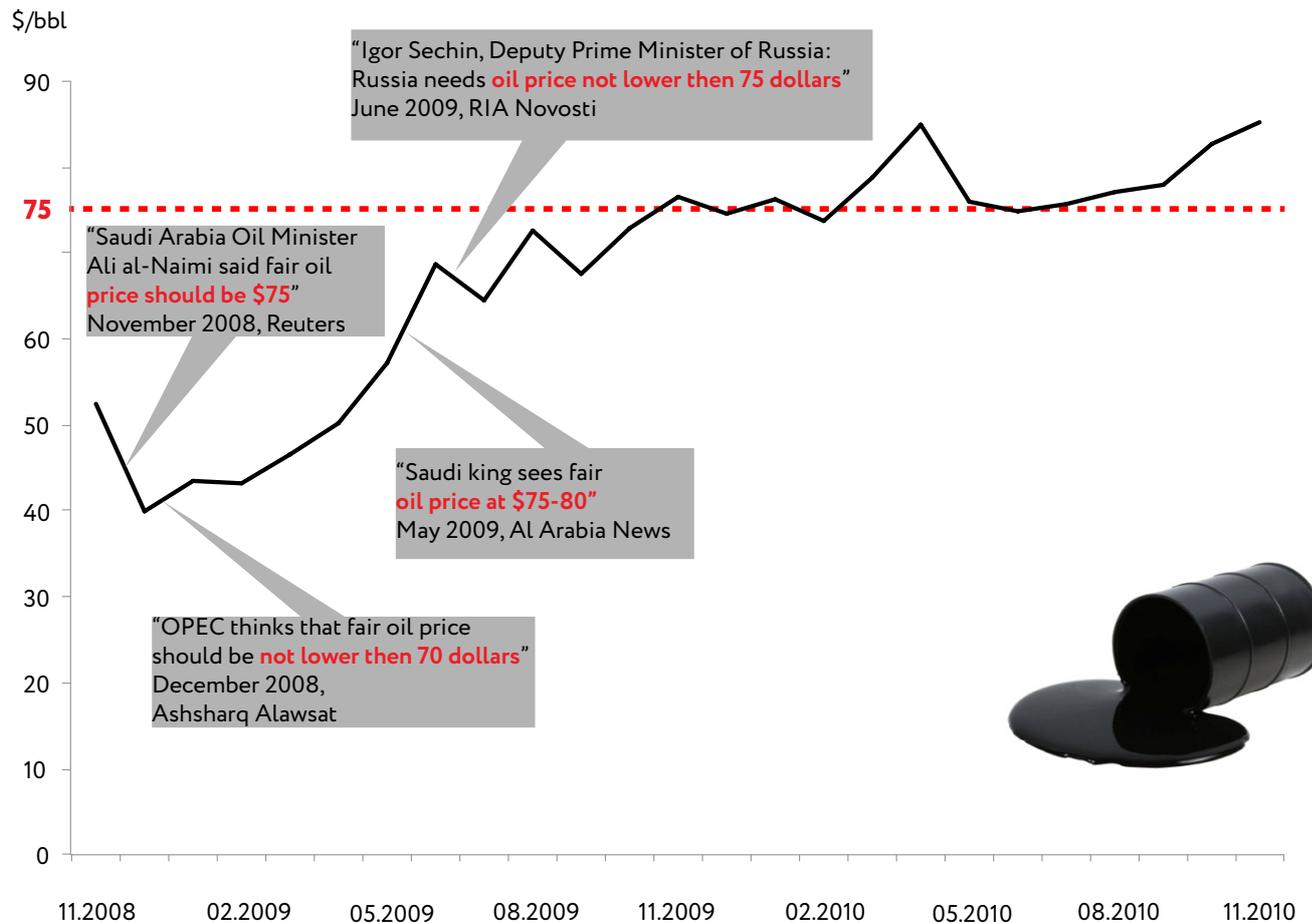
When influential people make forecast, reality changes. When Ali-al Naimi, Minister of Oil, Saudi Arabia made a forecast, the market was shaped by it. In 2008 when oil prices decreased dramatically, Ali-al Naimi made a statement that "fair oil price should be 75 USD". Other key decision makers then started repeating it which resulted in the stabilization of oil prices at a level around 75 USD⁹ (see the graph above). That shows that an influential person such as the Minister of Oil of Saudi Arabia can shape the market only with one statement about future. But experts commented¹⁰ during conducted interview that Saudi Arabia is the only country in the world who is price maker. Other countries including Russia are price-takers.



“Ali al-Naimi pretty much controls the world’s oil tap”

Times

HOW OIL PRICE CAN BE INFLUENCED BY ALI-AL NAIMI STATEMENT

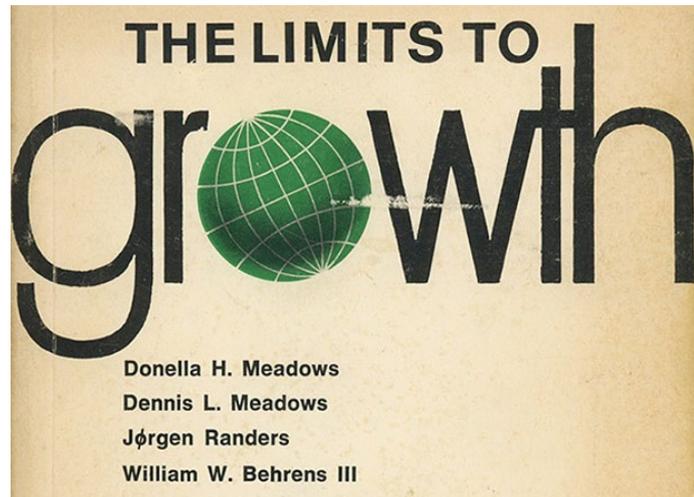


oil price data source: US Energy Information Administration

EXPECTED FORECAST IS ACCEPTED BY PUBLIC EVEN IF IT IS BASED ON OBVIOUSLY WRONG ASSUMPTIONS

The book "Limits of growth" commissioned by the Club of Rome and published in the 1972, conveyed the message that modern civilization would face environmental and economic collapse sometime in the mid-twenty-first century if we keep current policy and levels of economic growth. The assumption on which this book was based on is that the level of technology will be the same, which was of course wrong. But it started a new period of understanding of economic development because the idea that resources are used not properly was already obvious. The book just triggered debates. And it's still valid and referenced by scholars.

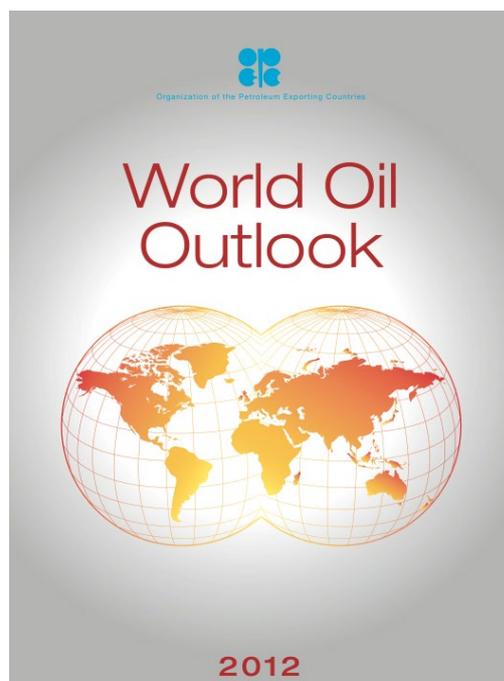
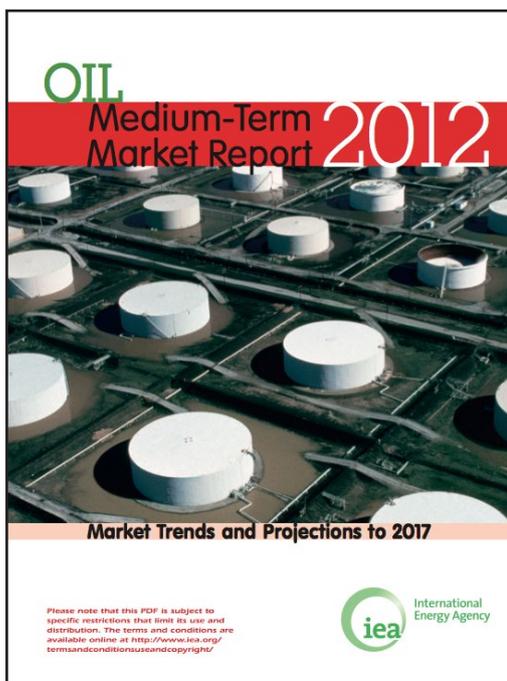
A book that launched a movement and triggered debates



YOUR POINT OF VIEW DEPENDS ON THE POSITION YOU HOLD

Depending on interests, forecasts by different organizations varies. Recent medium-term oil market forecasts by IEA and Organization of the Petroleum Exporting Countries (OPEC) showed this clearly. The International Energy Agency, an organization of oil net importers, in its recent Medium-term market report forecasted oil prices for 2017 at the level of 89 USD and OPEC's share in the global market to be 33%. But OPEC's recent forecast "World Oil Market" forecasts the oil price at 100 USD in 2017 and the share of OPEC in global oil market to be 39%. This is a clear example when forecasters see better futures for themselves.

	OPEC's share	Oil price
Consumer's vision of the future	33%	89 USD
Producer's vision of the future	39%	100 USD



FORECAST IN OIL PRODUCTION IS VERY CONDITIONAL

In 2008 Abdalla Salem El-Badri, Secretary General of OPEC claimed: "It is impossible to replace the production of Iran. The prices would go unlimited ... I can't give you a number". This message can be translated as – don't enforce any sanctions against Iran and don't start any war. And of course, this message was considered by markets and any increase in uncertainty around Iran was a factor

for oil prices to go up. But in 2011 and 2012, United States implemented a few stages of sanctions against Iran that were supported by Ali Al-Naimi, Minister of Oil, Saudi Arabia, with the statement: "We will step in and fill any gap in the oil market if needed". And finally, Iran's oil export dropped 40% and did not influence oil prices at all. This example shows the importance of politics in forecasting and how "expert opinion" can be shaped by political goals.

"IT IS IMPOSSIBLE TO REPLACE THE PRODUCTION OF IRAN. THE PRICES WOULD GO UNLIMITED ... I CAN'T GIVE YOU A NUMBER."

Abdalla Salem El-Badri
Secretary General of OPEC
Associated Press, 12.2008

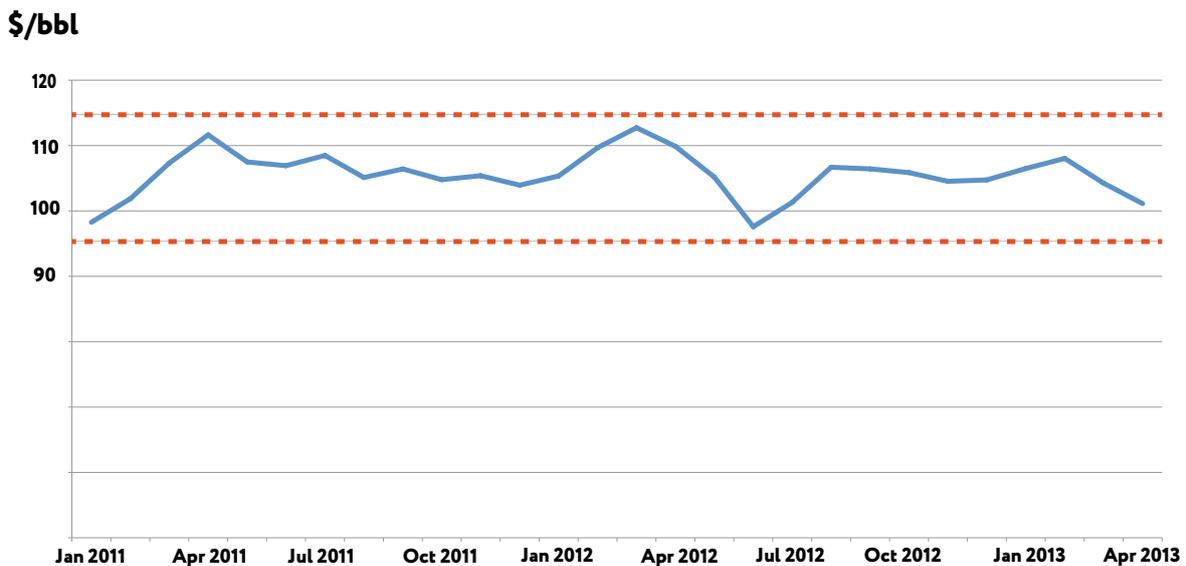


"WE DON'T WANT TO REPLACE IRANIAN OIL...WE WILL STEP IN AND FILL ANY GAP IN THE MARKET IF NEEDED...."

Ali Al-Naimi,
Saudi Arabia oil Minister
Reuters



...BUT OIL PRICE DIDN'T "GO UNLIMITED" WHEN SANCTIONS IN 2011 AND 2012 WERE INTRODUCED WHICH RESULTED IN 40% DROP IN IRAN'S OIL PRODUCTION...



ADVOCATING OWN INACTION

Global mass media questions Gazprom's future due to shale gas revolution. There were several articles in top mass media with headlines like "Gazprom Biggest Loser as Shale Gas Upends World Markets"¹¹. And they general vision by key experts is that Gazprom lost the moment of shale gas revolution and didn't even try to adopt its strategy to it. Now due to growing pressure from cheap shale gas on the market Gazprom is under big threat of losing its market share in Europe.

But what are Gazprom's top managers are doing is advocating their inaction and trying to "advertise" the idea that "shale gas revolution is a bubble about to burst"¹².

One expert who wanted not to be named told the author "Gazprom hired one PR company from United States to promote the idea that shale gas is a bubble and they didn't miss any new trends"

CONCLUSION

Different groups of motives and goals that move forecasters were defined:

- Influencing the market (prices, delivery conditions)
- Creating a scandal for the launch of the forecast. The number of media hits is the KPI for forecasters
- Seeking public support to advocate new policy
- Advocating political actions
- Threats

But it does not mean that forecasts are created for manipulative purposes. It is a part of the nature of forecasts and it influences the reality, even if it was not the purpose. Users of forecasts should know this fact and consider it while working with forecasts.

At the same time, findings of the research can be used for designing a forecast which will be considered by Russian decision makers or will "impress" them. Forecast producers should follow several guidelines.

To produce such a forecast we need to use following. The key focus of a successful forecast for Russia must include risk analysis for Russian oil exports. Showing risks for the oil industry will attract attention of decision makers because the whole economy is driven by oil industry. Risks for oil in Russia are equal to a future of country's existence.

It is necessary to use an impressive apocalyptic image. In Russia's case it is even better to use abstract image related to Russia's dependence on oil and gas exports.

Forecast should be produced by a respected international organization, and be presented before significant

Global media questions Gazprom's future

"Gazprom Biggest Loser as Shale Gas Upends World Markets"

Bloomberg, 22.06.2012

Gazprom questions the obvious trend to advocate own inaction

"American Shale Gas Project is a Bubble About to Burst"

Russia Today, 30.03.2013

international event. In this case, it will have the maximum number of media hits.

When making forecasts for Russia, it is better not to use American and British experts. Otherwise, there is a risk that it will be reflected to be "West propaganda". The best choice are German experts. Of course, forecasts need a threatening or at least attention-attracting title.

Showing environmental risks and climate risks are not important because in Russia it is often considered as green lobby or greenwashing.

Political risks are probably second most important after risks for oil export. These are the two top things that attracts decision makers' attention.

Russian politicians like to see clear benefits. So it is a must to show as precise as possible the amount of money and value created by new policy implementation (if new policy is proposed in the forecast).

There is no need to show an apocalyptic future – neither environmental nor economic. Decision makers are too optimistic (at least officially) to believe in apocalypse and to be threatened by it.

Use of these simple guidelines can help a forecaster attract more attention to his work and potentially trigger debates or even changes in Russia. Understanding of the nature of forecasting can be useful, not only for proper decision making, but also as an instrument of influence and for triggering positive changes.