



Russia, Saudi Arabia, and the US: A Slippery Oil Triangle

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EXECUTIVE SUMMARY: Oil relationships are as unstable and volatile as romantic ones. Following a deadlocked OPEC summit in February, Moscow and Riyadh announced they would ramp up production, sending already low prices tumbling. Since both countries' budgets are almost entirely dependent on energy exports, this suggests they have decided geopolitical interests trump purely economic ones.

On February 6, 2020, OPEC held a [meeting](#) in Vienna to try and reach agreement on oil prices and production levels. The meeting ended without agreement following Russia's refusal to slash production, even if this meant a further drop in prices already depressed by the beginning of the coronavirus crisis. Russia's obstinacy was curious, as energy exports make up the lion's share of its budget. But given Putin's adventurist foreign policy, which includes costly military interventions in Syria and Ukraine and extensive cyberwarfare operations against the US and other major western political systems, as well as growing discontent within Russia over the deteriorating standard of living, he felt he could not afford to lower production levels, even if that meant no increase in prices that were already relatively low.

A few days after the meeting, Saudi Arabia detonated an even bigger bombshell when it announced that it would not only increase production but would reduce prices via discounts. The result was a decrease of \$24 per barrel in a single day (March 9, 2020), the biggest single day oil price plummet in almost three decades. This dropped prices to around the \$30/barrel mark.

On the surface, this made as little sense as the Russian refusal to slash production. Riyadh is involved in a costly proxy war with Iran in Yemen, and

its budget is even more oil dependent than that of Russia. It is already running an unprecedentedly large [deficit](#), and despite foreign currency reserves of approximately half a trillion dollars, it cannot cushion its economy indefinitely from the impact of such low prices.

Why would two major producers so dependent on oil exports act in a way seemingly so detrimental to their own economic interests?

Regarding Russia's motives, the answer seems obvious. The main casualty of prolonged low oil prices would be the US energy industry. For decades, the US was highly dependent on energy imports, as anyone knows who remembers the fuel crises generated by the post-1973 War Arab oil boycott. This has changed over the past two decades as new fracking technologies have enabled US energy producers to exploit the country's vast shale oil reserves. Thanks to fracking, the US achieved energy independence by 2016, and last year began exporting significant amounts of crude and refined petroleum products.

Fracking is more expensive than drilling, however. At \$30/barrel, most oil drilling operations may not be lucrative, but they remain [viable](#). Fracking, by contrast, begins losing its economic viability at around the \$50/barrel mark. For Saudi Arabia and Russia, prices hovering over the \$30 mark are the economic equivalent of a bad cold. For the US energy industry, such prices are a terminal disease that will cause the fracking industry to implode.

Because Russia has, over the past decade, made no secret of the fact that it regards itself as adversarial to the US, it is no surprise that it is willing to inflict economic pain on itself if doing so would inflict greater pain on the US. Putin's strategy has been to obliquely confront the US, primarily by subverting its political system via an ongoing sophisticated and effective cyber-disinformation campaign. One of his biggest frustrations has been his inability to inflict any kind of economic damage on the US. He appears to have found a way to do this, and is willing to absorb the pain that goes with the gain.

Yet this is not the whole story. Unleashing economic mayhem on the US energy industry could significantly boost Putin's efforts to further destabilize and paralyze the already dysfunctional American political system. As this is an election year, he could create a near [perfect storm of eco-political disruption](#), given that the majority of states that would bear the brunt of a fracking implosion are either in the American rural heartland (Oklahoma, Kansas, Nebraska, North Dakota, Montana, Wyoming) or the South

(Mississippi, Arkansas, Alabama, Louisiana). Even more ominously, several Midwestern swing states that are likely to be election deciders, such as Ohio, Michigan, and Pennsylvania (much of which is culturally if not geographically Midwestern), are also key fracking centers, and their economies are highly dependent on the industry.

These states share a few important common denominators. They all voted for Donald Trump in 2016, and they are all poorer, more conservative, and less diverse than America as a whole. For most of them, fracking is one of relatively few significant employment generators. If fracking goes south, they will see unemployment spike, which could significantly impact the election, especially in the key states of Ohio, Michigan, and Pennsylvania.

An attack on the American fracking industry also has the potential to inflict significant geopolitical damage. Without fracking, the US instantly goes from being an [oil exporter to a major importer](#). Moscow has already succeeded in [exploiting the EU's dependence on Russian gas](#) to its geopolitical advantage. Putin no doubt remembers how the Arab oil boycott affected the US in the 1970s. Returning the US to a dependency on foreign oil would give Putin unprecedented leverage over Washington.

The bottom line is that if this ploy works, Moscow could hit Washington with a triple whammy: it could further compromise the American political system, reduce the US's economic clout and ability to project soft power, and curtail its ability to counter Russian aggression.

The more interesting and, for Israel, possibly ominous question is why Saudi Arabia would cooperate in such a damaging assault on the US. After all, the kingdom has always been totally dependent on the US to ensure its survival.

One possible answer is that Crown Prince and de facto ruler Prince Muhammad bin Salman (MBS) has come to the conclusion that the kingdom can no longer rely on the US and needs to recalibrate its strategy and policy. There is some logic to this thinking. Trump has proven that while he talks loudly and boasts about the American big stick, he is extremely hesitant to use it. His record since taking office shows a pattern of withdrawal, especially regarding the Middle East. He abandoned the Kurds and weakened Saudi deterrence when he declined to retaliate after Iran launched a damaging cruise missile attack on Saudi oilfields, considered a strategic target.

Even worse, this is not a short term development. The Republican Party, which has tended since the 1950s to be more hawkish than the Democrats, has undergone a metamorphosis under Trump. It has adopted all his policies,

which are largely populist and neo-isolationist. Economically, it has abandoned its commitment to fiscal prudence and reasonably balanced budgets. Regarding foreign policy, there is scant difference between “Make America Great Again” and “America First.” There is little reason to assume that a second Trump administration would jettison its neo-isolationism and adopt the type of proactive and hawkish foreign policy that has been a Republican hallmark since the 1950s.

With that said: if a second Trump administration is an unappealing prospect to MBS, the idea of a Democratic administration is a nightmare.

Joe Biden was the Obama administration's leading foreign policy luminary. That administration's foreign policy in general, and in the Middle East in particular, was characterized by timidity, appeasement, and a deep aversion to confrontation. On Obama's watch, Syria was abandoned to Iran, Russia, and al-Qaeda as well as its more radical jihadi spin-offs. Iran was empowered while traditional American Sunni allies got the cold shoulder.

A Biden administration would be even less likely to intervene militarily on behalf of traditional US allies, given that it has a not insignificant radical wing to deal with. Sanders, the party's elder statesman, is a tame hawk compared to many of his supporters, especially the “Squad” (freshmen Representatives Ilhan Omar of Minnesota, Alexandria Ocasio-Cortez of New York, Rashida Tlaib of Michigan, and Ayanna Pressley of Massachusetts). These four have already established a reputation as radical Young Turks who relish being gadflies of the first order. If Obama was indifferent to Saudi Arabia, the Squad is positively hostile to the Ibn Saud dynasty. Their instinct is to oppose military intervention, especially to defend non-democratic regimes. Regarding Saudi Arabia, they are more likely to support the use of force to facilitate regime change in Riyadh than to maintain the status quo.

MBS seems therefore to have embarked on a high-risk game in which he hopes to achieve two aims. By coordinating oil price policy with Russia, he hopes to get Moscow to take Riyadh's interests into account and include it in the game it is playing with Iran and the Turkish-Qatari axis in Syria. He wants to see Iran's presence in Syria curbed, and knows that for now, only Russia can be of any use to him in this regard. Low oil prices will affect Iran much more than any other Middle Eastern country, forcing it to reduce its military involvement in the region (Syria, Iraq, Yemen), and perhaps even generating a regime-threatening economic crisis.

He also knows that the only way to ensure continued American support is to have it once again dependent on Saudi oil. Working with Russia to gut the American fracking industry is the best way to achieve that.

MBS can play this game with a reasonable chance of success because of the contradictory nature of Russia's tactical alliances with countries with more opposing interests than matching ones. Turkey and Iran are historical enemies and each has a totally different agenda, in that both aspire to be the prime regional power. Turkey wants to lead a Muslim Brotherhood-inspired Sunni Islamist revolution that would see it regain the status the Ottoman Empire had over a century ago as leader of the Sunni world. Iran wants to take over the entire Islamic world and make Shiite Islam, for the first time since the split, the dominant force in that world.

Neither Putin's balancing act between Ankara and Tehran nor MBS's between Russia and the US can last forever. But until Putin decides to end it and make a strategic choice, Saudi Arabia can continue to play the game.

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