

Our View: Russia Declares Economic War on the United States

Philip Verleger, March 2020

The IEA's executive director Fatih Birol warned Russia and Saudi Arabia today [March 9] that "playing Russian Roulette in oil markets may well have grave consequences." He added, according to Reuters, that new US shale development would stop if prices fell below \$25 per barrel.¹

Hello, Fatih. You have just identified President Putin's goal.

The Mueller report, along with many articles and books, has made it clear that President Putin wants to create as much chaos and discord as possible in the Western alliance and the US economy. The coronavirus presents him with the ultimate opportunity to wreak havoc.

COVID-19's impact on the oil market gives Russia a way to respond to US sanctions imposed on the Nord Stream 2 natural gas pipeline's construction and Russian trade with Venezuela, as well as to plans by US oil companies to drill in the Russian Arctic. The global demand for oil has dropped precipitously. In response, Saudi Arabia proposed that OPEC members and the other producers that work with OPEC (OPEC+) cut production to maintain crude oil prices.

Russia and especially President Putin (who once wrote a dissertation on mineral economics) had other ideas. Putin has very likely been galled by US Secretary of State Pompeo's demands that Europeans buy US "freedom gas" rather than Russian gas. Furthermore, the US Secretary of Energy's statement that Russia could not complete the pipeline because the country "did not have the technology" must have stung.

Russian authorities do not make braggadocious statements like Trump, Pompeo, and other members of the Trump administration. Instead, they act somewhat like the KGB agents many once were. Had they adopted the approach of US officials, though, they would have announced that "US and multinational oil companies are so financially weak today that we can cause them all to fail or shut down activity. Enjoy the extra vacation time!"

Russia has declared economic war on the US oil industry. Closings will follow.

This is not Russian Roulette. This is war.

¹ Ron Bousso and Louise Heavens, "IEA warns oil producers against playing 'Russian roulette,'" Reuters, March 9, 2020 [<https://tinyurl.com/tkw9de9>].