

Oil Prices and Energy Wars: The US Empire of “Frack” versus Russia

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Global Research, December 05, 2014

[Strategic Culture Foundation](#)

Region: [Europe](#), [Russia and FSU](#)

Theme: [Global Economy](#), [Oil and Energy](#)

In-depth Report: [UKRAINE REPORT](#)

Energy prices started to move downward in late-2014, when Saudi oil began to flood energy markets. Variations of two main schools of thought about this emerged. One school explained things purely on the basis of business interests whereas the other school viewed the drop in oil prices geopolitically.

Some analysts viewed the Saudi move as a means of pushing out competitors in a saturated market with falling demands that have been caused by economic stagnation. Within this group of analysts, there were also those that viewed this as an attack on the growing shale industry in the US. According to RusEnergy analysts Mikhail Krutikhin, Saudi Arabia is trying to push US shale production out from the market by making extraction unprofitable and ultimately expanding its share of the market at the expense of US producers. [1] The decline in oil prices will hurt production in areas not controlled by the Organization of Petroleum Exporting Nations (OPEC) and this may be a means of preventing the oil market from transforming from a «seller’s market» into a «buyer’s market». [2] Others, like Lukoil’s Leonid Fedun, maintained that the US shale industry risked becoming the victim of its own success. [3]

On the other end of the spectrum, there were analysts that viewed things from a geopolitical prism. It was posited by this group of analysts that the Saudi move was made to pressure Ecuador, Iran, Russia, and Venezuela by Washington and its allies over issues like the Iranian nuclear program and the crises in Ukraine and Syria. In other words, petro-politics was at play and the market was not acting «freely» or «on its own» in bringing down the price of oil; it was a US strategy of economic warfare and coercive diplomacy.

The price drop should not be viewed in either a strictly business sense or a strictly geopolitical sense. In this regard, Russian President Vladimir Putin raised important questions about it during a press conference held in Milan on October 17, 2014. After separate talks with Italian Prime Minister Matteo Renzi and Austrian Chancellor Werner Faymann on the sidelines of the Tenth Asia-Europe Meeting (ASEM) Summit, President Putin pointed out that the price drop would also hurt US companies. He pointed out that lower oil prices would knock down the profitability of shale production, from so-called tight oil, and US-controlled hydraulic fracturing operations in North America and around the world.

Speaking in terms of US dollars, Putin told a TASS news agency reporter, which had brought up the issue, that he did not believe that any energy producers wanted major price drops. This included the US, which has steadily been positioning itself to become a major global energy exporter through hydraulic fracturing or fracking. According to Putin, the production cost of US shale-based hydrocarbons—tight oil and shale gas—break even at a rate of eighty

dollars; he pointed out that the «the price drop on the world markets will deal a very heavy blow to this type of activity in the United States as well.» [4]

Putin's key point was this: «As for conspiracy theories, conspiracies are always possible. However, in this case they hit the conspirators the hardest, if they do exist. I have already mentioned that the budgets in the main oil producing countries are also based on oil prices, around \$85-90 a barrel, I believe».[5]

Petro-Politics: Clash of Pipelineistans

The European Union and Ukraine are dependent on Russian energy supplies. A key concern of Germany and the EU has been maintaining the continuation of the flow of Russian energy. This is why Milan's ASEM Summit was used to prepare the basis for a Russian-Ukrainian winter gas deal. This was prepared through multilateral talks between the EU, Moscow, and Kiev.

The Milan talks would lead to a trilateral agreement where the European Commission would lend Kiev the money to pay sixty-two percent of its five billion US dollar gas debts to Gazprom by the end of 2014. In return for getting repaid over three billion US dollars in unpaid bills by Ukrainian energy company Naftogaz, Gazprom would resume sending Ukraine natural gas until March 31, 2014.

Shortly after the ASEM Summit, on November 1, 2014, Russian Prime Minister Dmitry Medvedev signed a decree to sell Russian natural gas to Ukraine with a one hundred US dollar discount if the price for 1,000 cubic metres of gas supplied to Ukraine stands at just above three hundred and thirty-three US dollars or more. If the price drops below this, then the Russian discount would form thirty percent of the price.

While this was happening and Ukrainian President Petro Poroshenko was working to restart the flow of Russian gas, Ukrainian Prime Minister Arseniy Yatsenyuk ordered the work for the creation of a new gas pipeline with Poland to begin. His objective is to de-link Ukraine from Russia and to import gas from Poland by 2016. «This means that we would be able to buy all of the gas we need from the European Union member-states,» Yatsenyuk explained. [6]

While Yatsenyuk casually made it appear like the plan was to buy gas from the European Union, this was stretching the truth. While it is true that the natural gas would be shipped through the territory of EU members or even extracted from some of them, particularly Poland, what Yatsenyuk failed to disclose was that the gas would be coming from the US and that the shale gas extracted in Poland would be owned by US companies. The US energy companies Chevron, ConocoPhillips, ExxonMobil, and Marathon Oil all have huge stakes in exploring and developing Poland's shale reserves.

In parallel, Washington has taken steps to entrench its control over Canadian natural gas and oil reserves, which are among the largest in the world. The Canadian energy sector is being integrated deeper into Washington's energy infrastructure and assets. Ultimately, the US plans to begin large-scale exportation of shale-based energy from North America in 2015 and 2016.

When people like Yury Bereza, the Ukrainian nationalist militia leader-turned-parliamentarian, publicly announce on television that they plan on starting espionage campaigns inside Russian territory and attacking Russian infrastructure, one has to ask if

they plan on attacking energy infrastructure. Who will benefit from this? It would not be the EU, Russia, or Ukraine.

Washington has encouraged a deterioration of relations between Kiev and Moscow and between the EU and Moscow. It has done everything it can to get Kiev to cut energy ties with Russia, knowing the negative effect the supply disruptions would have on the EU. Washington's goals include preventing Eurasian energy integration in preference to a Euro-Atlantic energy network controlled by US companies.

Think the free market is genuinely free? Think again. The US cannot compete fairly against the Russian energy sector. US shale-based energy products are much more expensive than Russian energy supplies, because they need to be fracked, liquefied in the case of shale gas, and transported to Eurasia at much higher costs than Russian energy. This is why Washington has been fanning the flames of instability, creating tensions in Europe against Russia, and pushing for sanctions against Russian energy.

It is in the context of upsetting Russian energy ties with the EU and Ukraine that Washington has been instigating the breakdown of the Minsk Accords, the peace agreement between Kiev and East Ukraine's breakaway republics. Wishfully, the US wants to disrupt the flow of energy to the EU and create economic problems for Gazprom. The US objective is to economically weaken both Washington's Russian rivals and its own EU allies.

Economic instability, energy price drops, and insecurity in the flow of energy are meant to support Washington's trade agenda too. The US has aggravated relations in Eurasia to assist it in the creation of two trade blocs that exclude Russia and China. In Europe it has fomented friction between the EU and Kremlin to promote and accelerate the Trans-Atlantic Trade and Investment Partnership. In the Middle East it has tried to disrupt Irano-Turkish and Russo-Turkish trade and energy ties. In the Asia-Pacific it has systemically ratcheted-up tensions between China and other regional countries as a means of helping Washington in promoting the Trans-Pacific Partnership.

The Empire of Frack and Shale Deposits of Ukraine and Argentina

It is no coincidence that the US Department of State has been heavily promoting the export of US shale and fracking for the last half decade. Nor is it a mere coincidence that major US energy corporations have been involved in intense negotiations to control shale reserves around the world. In the European landscape, this project has particularly concentrated on the Balkans, Poland, and Ukraine.

The US wants the government in Kiev to regain control over the breakaway republics in East Ukraine and to regain control of Crimea for multiple reasons. Aside from strategic factors, petro-politics are also involved. Excluding Russian reserves, Poland and Ukraine have the first and third largest deposits of recoverable shale gas in Europe. East Ukraine has energy reserves that the US has its eyes on. This is why Washington has been a strong supporter of Kiev's attempts to regain control over East Ukraine, where much of the shale gas concessions that US conglomerates were awarded are located. As for the Crimea, not only is it of strategic importance for dominating the Black Sea, it also has energy reserves off its coast that Washington wants.

In 2012, Viktor Yanukovich's Ukrainian government awarded a gas contract off the Crimean coast to a consortium led by ExxonMobil and Royal Dutch Shell to develop the Skifska gas

field. The next year, Yanukovich signed a deal with Royal Dutch Shell to explore and drill for natural gas in East Ukraine in January 2013 with zero taxes and major corporate benefits for the Anglo-Dutch energy giant. Another agreement was signed in November 2013 between US energy giant Chevron and Kiev to explore and develop the energy reserves in Ukraine's western areas, facing Poland's shale reserves.

A similar scenario is at play in Argentina, which has the second largest exploitable reserves of shale gas in the world. Buenos Aires intends on becoming an energy exporter in the future. This is why the Argentine government took back control of its national energy company, Yacimientos Petrolíferos Fiscales (YPF), from the Spaniard oil conglomerate Repsol through legislation passed on March 3, 2012.

Argentina has been in the cross-hairs for economic destabilization via a group of hedge funds—called the vulture funds—that have tried to disrupt its debt repayment agreements. This has been done with the help of the US judicial system. This is why the Argentine government has championed the concept of fighting «economic terrorists.»

It just so happens that YPF and Gazprom signed a partnership agreement in 2014 to develop and extract Argentina's energy reserves. It appears that Argentina's bid to develop its energy resources and its cooperation with Russia are the reasons why the vulture funds have intensified the pressure on Argentina. [7] This is why Argentine President Cristina Kirchner has said that the vulture funds are the «eagles» of Washington's empire.

Where the vulture funds did not succeed, the decline in market prices may. The extraction of oil or gas reserves from shale deposits becomes unprofitable with low prices. Argentina may effectively be neutralized by the drop in oil prices.

The Manipulation of Energy Prices as a Weapon

Historically, the Arab petro-sheikhdoms have manipulated energy prices in coordination with the US. Moreover, even if the shale industry collapses or freezes its operations, this does not mean that in the future when the world's finite energy supplies are lower (and costs are higher) that exports and fracking would not be resumed.

Saudi Arabia was reinvesting capital back into the US economy during the 1968 Arab Oil Embargo and even Henry Kissinger admits that Washington used the rise in oil prices to strengthen its economic influence over the Western European and Japanese economies through the petro-dollar. [8] In this regard, the rise in energy prices was also used to weaken and swallow other economies, including in the Eastern Bloc.

The Iraq-Iran War helped further tightened Wall Street's grip on the global economy. After the US goaded the Soviets into invading Afghanistan and unveiled the 1980 Carter Doctrine, which declared that the Pentagon reserved the right to use military force within the Persian Gulf to defend its interests, Washington instigated Iraq into invading Iran. [9] In this way the US kept the Soviets out and manipulated Iraq, a Soviet ally, into fighting Iran, Washington's newest adversary.

It is worth visiting a 2007 text by this author: «The price of Soviet petroleum also increased because of the Iraq-Iran War, but to no real benefit to the Soviets. The Soviet economy was affected largely because of the war in Afghanistan, a US snare that ensured that the Soviet economy would not benefit from the rise in petroleum prices. The rise in petroleum prices

during the Iraq-Iran War also created a state of economic shock in Eastern Europe. The economic disturbances in Eastern Europe also had a negative toll on the Soviet economy. The Eastern Bloc also opened the door to Western banks for financial aid to cope with the economic shock that was created by the rise in petroleum prices. This would be a lethal mistake.» [10]

In collaboration with the Arab petro-sheikhdoms, Washington would then make oil prices fall after the Iraq-Iran War by flooding the markets. This would destabilize Eurasia further and hurt Iraq, Iran, and the Soviets. Saddam Hussein is known for complaining that the Arab petro-sheikhdoms were continuously violating the OPEC quotas by flooding the market. Baghdad and Tehran both saw this as acts of aggression and destabilization.

The above analysis of what took place during the Iraq-Iran War has been corroborated as recently as October 2014 by Nikolai Patrushev, the secretary of the Russian National Security Council. Patrushev has explained that Washington, in collaboration with the Arab petro-sheikhdoms, manipulated the price of oil in the 1980s to hurt the Soviet economy while the Soviets were stuck in Afghanistan and spending more in Eastern Europe to sustain their allies and counter protests. [11]

There are clear parallels between the 2014 oil price drops and the Cold War ones. Even US attempts to drag Russia into a conflict in Ukraine parallel the US objective of dragging the Soviets into Afghanistan. There are several US adversaries that will be affected by the 2014 oil price drops: Ecuador, Iran, Venezuela, and Russia. Russia, however, may be the main target just like the USSR was the main one during the Cold War even though Iraq and Iran were targeted too.

There is also one final point. The sanctions regime against Russia, added to the one against Iran, has economically hurt the EU and other actors. This has had global implications for slowing down economic activity and lowered energy demands. In part, this is probably why Putin announced on December 1, 2014 that the South Stream was put on hold when he visited Turkey.

Washington is responsible for the price drops in one way or another. Whether intentional or not, what should not be forgotten is that the last time prices fell dramatically was a few months before the global economic meltdown in 2007. Inadvertently or not, Washington's push for sanctions could be leading to another international economic crisis.

NOTES

[1] Милена Бахвалова [Milena Bahvalova], Николай Дзись-Войнаровский [Nikolai Dzis-Voynarovsky], and Амалия Затари [Amalia Zatarilis], «Основной пострадавший — Россия» [«The Main Victim: Russia»], *Русская планета* [*Russkaya Planeta/Russian Planet*], November 27, 2014.

[2] Ирина Тумакова [Irina Tumakova], «После заседания ОПЕК нефть и доллар готовятся к встрече» [«After the OPEC Meeting, Oil and the Dollar Prepare to Meet»], *Фонтанка* [*Fontanka*], November 28, 2014.

[3] Will Kennedy and Jillian Ward, «OPEC Policy Ensures U.S. Shale Crash, Russian Tycoon Says,» *Bloomberg*, November 27, 2014.

[4-5] Kremlin version of the transcribed translation of the Milan press conference — titled «Answers to journalists' questions following visit to Italy»— has been used in quoting Vladimir Putin.

[6] «'Ukraine's Prime Minister Orders to Plan Construction of Gas Pipeline With Poland:

Cabinet,» *RIA Novosti*, October 31, 2014.

[7] Mahdi Darius Nazemroaya, «Are Vulture Funds A US Tool Against Argentina In An Energy War With Russia?» *Mint Press News*, October 24, 2014; Mahdi Darius Nazemroaya, «Eagles of Empire and economic terrorism: Are vulture funds instruments of US policy?» *RT*, October 24, 2014.

[8-10] Mahdi Darius Nazemroaya, «America's 'Long War': The Legacy of the Iraq-Iran and Soviet-Afghan Wars,» *Global Research*, July 5, 2007.

[11] Nikolai P. Patrushev, «Вторая 'холодная'» [«Second 'Cold'»], interview with Ivan Igorov, *Российской газеты* [*Rossiyskaya Gazeta*], October 15, 2014.

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