

The Changing International Politics of Oil

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While the Finance Ministers of several oil guzzling countries like India and China are smiling, people are not. Global oil prices have fallen about 40% since June when the price of a barrel of oil was US\$ 115/- to \$70/- a barrel currently. This decrease has benefitted governments, but the price decline has not been adequately passed on to the public. This is contrary to the free market mantra that has been sold by the governments that international commodity prices will be passed on to them. This policy is only selectively used by governments, according to their own interests. In any case the reason for the decline of oil and gas prices are on account of international geo politics and this decline will be temporary.

One reason for the decline of oil prices is that the biggest consumer of oil, the U.S. has adopted the 'fracking' technique to produce its own oil. US domestic production could hit 9 million barrels by next year. But this method is highly polluting, and takes 2-4 million gallons of water for fracking the average well. The environmental movements in the US and millions of people who live near these regions are starting to object and a town in Texas that had started fracking has voted to shut it. Further, since oil prices are declining, the profits of fracking companies are decreasing and this is making them re-consider this expensive exercise.

The conflict in Syria had led to speculation that oil prices would actually rise. This expectation increased with the rise of Islamic State (ISIL), civil war and the lowering of production in the oil fields in Syria and Iraq. The price of oil rose briefly in 2013. But in 2014 the picture suddenly underwent radical change.

The decline of oil prices coincide with the meeting of U.S. Secretary of State's meeting with the Saudi King Abdullah in June 2014. Reuters and other agencies reported that the Obama-Kerry team put pressure on the Saudis to increase oil production and reduce prices, even as the U.S's needs declined in order to create an artificial glut. The reason for this deal was to put pressure the leadership of that are coming in the way of US/NATO powers from getting what they want.

Russia is the first target. Oil and natural gas forms almost 70% of its total exports. A cut in oil prices would negatively impact the Putin government. The US has imposed unilateral sanctions on Russia, because of Russian support to Ukrainian separatists and their opposition to Ukraine joining NATO. Though the value of the ruble has declined, Russia is looking for other options.

In this geo political game, the US has not factored in China. Russia has increased its oil exports to China and their supplies to China have increased and will reach 31 million tons by 2030. The Chinese and Russians are making plans to bypass the dollar in such deals and use their local currency. US unilateral sanctions against Russia have not only failed, like other sanctions before, but have led to increased Russian nationalism, brought Russia- China closer and Russia can give old allies like India a better deal.

Moreover, sanctions has given Russian manufacturing new fillip and Chinese cheap goods a better chance than European ones. So Europe is being hit too. Recession in Europe is contagious and can go in all directions.

The US negotiated to lower oil prices with their main ally the Saudis in order to hit out on the Bashar al-Assad regime in Syria and to put pressure for regime change in Iran. The US has imposed unilateral sanctions against both these countries, with little impact on the regime, though it has hurt ordinary people and has all kinds of consequences like terrorism. The civil war in Syria has led to the rise of uncontrollable and horrific militia. Another oil producer, Libya is polarized between Islamists and others. The Iranian regime is the most stable in the region, despite sanctions and low oil prices. The US is being forced to negotiate with them on the nuclear issue, despite Israel's veto.

So things have not gone according to the US and Saudi plan. The growth of the IS is causing havoc in the entire region and the conflict can spill over to Central Asia, Afghanistan, Pakistan and further. It is alleged that the Saudis fund fundamentalists and their militias. But the US turns a blind eye in order to cut a deal with the Saudis in exchange of calibrating oil prices to hit out at Russia, Syria, Iran and others.

The decline in oil prices also impacts American entrepreneurs in the fracking industry, because international oil prices are less than what it takes to produce fracked oil. The Saudis are getting restless. After all a decline in oil prices does not help the regime that is parasitic on high oil profits. Worse, the Iraqi regime has become totally dependent on US aid for survival.

The US spent millions on training the Iraqi army that collapsed in front of the ISIL militia. Now President Obama has asked for authorization to send more air power to contain the ISIL. They have to assist the Kurds to fight back this terrorist militia from Kobane, where there have been 270 airstrikes in the last few weeks. The US is sending an additional 1,500 troops to Iraq. But these are not enough. Iraq will have to have more of its own soldiers. The decline in oil prices means that Iraq will not be able to pay salaries to its own army.

It appears therefore, that the fall of oil prices is going to be a short lived phenomenon. Primarily for the following reasons: one, because it is an artificial glut. Two, because the transnational corporations that own oil shares want high prices and feel with all these Middle East conflicts they should actually be getting more profit. Three, because the new fracking industry in the US can only be sustained if they are allowed to pollute and profit. Four, because, the world is no longer a chess board where the US can move countries and people as pawns while they are safeguarded. Five, because deals on oil prices between the US and the Saudis, where local people pay the cost of being killed in wars is no longer a secret. Six, because the US attempt to retain hegemony through the use of force and shady deals is fast losing international legitimacy. And yes we could go on. But the bottom line is that oil prices are linked to international politics and this politics is changing.

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* The Citizen:

<http://www.thecitizen.in/NewsDetail.aspx?Id=1633&THE/CHANGING/POLITICS/OF/OIL>

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