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## Oil Price Blowback; Is Putin Creating a New World Order?

by MIKE WHITNEY

January 06, 2015

“If undercharging for energy products occurs deliberately, it also affects those who introduce these limitations. Problems will arise and grow, worsening the situation not only for Russia but also for our partners.” – Russian President Vladimir Putin

It’s hard to know which country is going to suffer the most from falling oil prices. Up to now, of course, Russia, Iran and Venezuela have taken the biggest hit, but that will probably change as time goes on. What the Obama administration should be worried about is the second-order effects that will eventually show up in terms of higher unemployment, market volatility, and wobbly bank balance sheets. That’s where the real damage is going to crop up because that’s where red ink and bad loans can metastasize into a full-blown financial crisis. Check out this blurb from Nick Cunningham at Oilprice.com and you’ll see what I mean:

“According to an assessment from the Federal Reserve Bank of Dallas, an estimated 250,000 jobs across eight U.S. states could be lost in 2015 if oil prices don’t rise. More than 50 percent of those job losses would occur in Texas, which leads the nation in oil production.

There are some early signs that a slowdown in drilling could spread to the manufacturing sector in Texas... One executive at a metal manufacturing company said in the survey, “the drop in

crude oil prices is going to make things ugly... quickly.” Another company that manufactures machinery told the Dallas Fed, “Low oil prices will drive reductions in U.S. drilling rigs, which will in turn reduce the market for our products.”

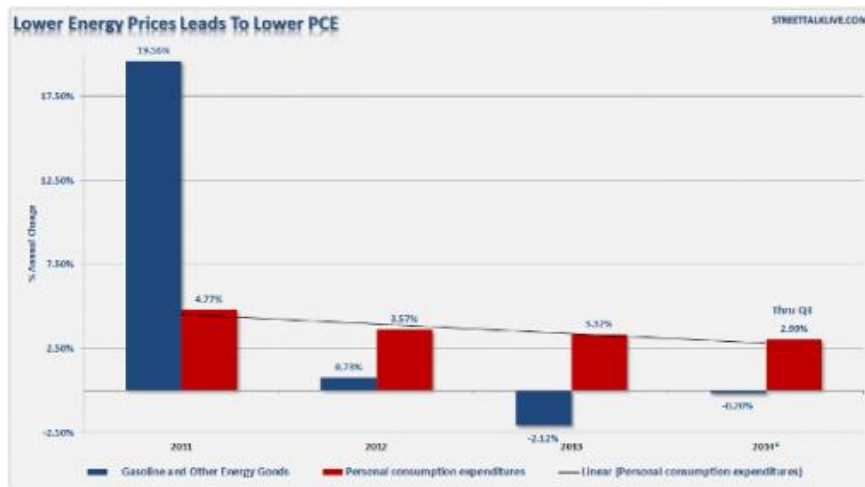
The sentiment was similar for a chemical manufacturer, who said “lower oil prices will adversely impact margins. Energy volatility will cause our customers to keep inventories tight.”

States like Texas, North Dakota, Oklahoma, and Louisiana have seen their economies boom over the last few years as oil production surged. But the sector is now deflating, leaving gashes in employment rolls and state budgets.” (Low Prices Lead To Layoffs In The Oil Patch, Nick Cunningham, Oilprice.com)

Of course industries lay-off workers all the time and it doesn't always lead to a financial crisis. But unemployment is just one part of the picture, lower personal consumption is another. Take a look:

“Falling oil prices are a bigger drag on economic growth than the incremental “savings” received by the consumer.....Another way to show this graphically is to look at the annual changes in Personal Consumption Expenditures (PCE) in aggregate as compared to the subsection of PCE spent on energy and related products. This is shown in the chart below.

Lower Energy Prices To Lower PCE (Personal Consumption Expenditures):



See? So despite what you might have read in the MSM, lower gas prices do not translate into greater personal consumption or more robust growth. Quiet the contrary, they tend to intensify deflationary pressures and reduce activity which is a damper on growth.

Then there's the knock-on effects that crashing prices and layoffs have on other industries like mining, manufacturing and chemical production. Here's more from Oil Price:

“Oil and gas production makeup a hefty chunk of the “mining and manufacturing” component of the employment rolls. Since 2000, when the oil price boom gained traction, Texas has comprised

more than 40% of all jobs in the country according to first quarter data from the Dallas Federal Reserve...

The majority of the jobs “created” since the financial crisis have been lower wage paying jobs in retail, healthcare and other service sectors of the economy. Conversely, the jobs created within the energy space are some of the highest wage paying opportunities available in engineering, technology, accounting, legal, etc. In fact, each job created in energy related areas has had a “ripple effect” of creating 2.8 jobs elsewhere in the economy from piping to coatings, trucking and transportation, restaurants and retail....

The obvious ramification of the plunge in oil prices is that eventually the loss of revenue will lead to cuts in production, declines in capital expenditure plans (which comprise almost 1/4th of all capex expenditures in the S&P 500), freezes and/or reductions in employment, and declines in revenue and profitability...

Simply put, lower oil and gasoline prices may have a bigger detraction on the economy than the “savings” provided to consumers.” (The Gasoline Price Myth, Lance Roberts, oilprice.com)

None of this sounds very reassuring, does it? And yet, all we hear from the media is how the economy is going to reach “escape velocity” on the back of cheap oil. Nonsense. This is just more “green shoots” baloney wrapped in public relations hype. The fact is, the economy needs the good-paying jobs more than it needs low-priced energy. But now that prices are tumbling, those jobs are going to disappear which is going to be a drag on growth. Now check out these headlines I picked up on Google News that help to show what’s going on off the radar:

“Texas is in danger of a recession”, CNN Money.

“Texas Could Be Headed for an Oil-Fueled Recession, JP Morgan Economist Says”, Wall Street Journal “Good Times From Texas to North Dakota May Turn Bad on Oil-Price Drop”, Bloomberg

“Low Oil Prices in the New Year Are Screwing Petrostates”, Vice News

“Top US Oil States Are Taking A Hit From Plunging Crude Prices”, Business Insider

Get the picture? If oil prices continue to fall, unemployment is going to spike, activity is going to slow, and the economy is going tank. And the damage won’t be limited to the US either. Get a load of this from the UK Telegraph:

“A third of Britain’s listed oil and gas companies are in danger of running out of working capital and even going bankrupt amid a slump in the value of crude, according to new research.

Financial risk management group Company Watch believes that 70pc of the UK’s publicly listed oil exploration and production companies are now unprofitable, racking up significant losses in the region of £1.8bn.

Such is the extent of the financial pressure now bearing down on highly leveraged drillers in the UK that Company Watch estimates that a third of the 126 quoted oil and gas companies on AIM and the London Stock Exchange are generating no revenues.

The findings are the latest warning to hit the oil and gas industry since a slump in the price of crude accelerated in November when the Organisation of Petroleum Exporting Countries (Opec) decided to keep its output levels unchanged. The decision has caused carnage in oil markets with a barrel of Brent crude falling 45pc since June to around \$60 per barrel.” (Third of listed UK oil and gas drillers face bankruptcy, Telegraph)

“Carnage in oil markets,” you say?

Indeed. Many of the oil-drilling newcomers set up shop to take advantage of the low rates and easy money available in the bond market. Now that prices have crashed, investors are avoiding energy-related junk bonds like the plague which is making it impossible for the smaller companies to roll over their debt or attract fresh capital. When these companies start to default en masse, as they certainly will if prices don’t rebound, the blowback will be felt on bank balance sheets across the country creating the possibility of another financial meltdown. (Now we ARE talking about a financial crisis.)

The basic problem is that the banks have bundled a lot of their dodgy debt into financially-engineered products like Collateralized Loan Obligations (CLOs) and Collateralized Debt Obligations (CDOs) that will inevitably fail when borrowers are no longer able to service the loans. The rot can be concealed for a while, but eventually, if prices don’t recover, a significant number of these companies are going to go under which will push the perennially-undercapitalized banking system to the brink once again. That’s why Washington’s plan to push down oil prices (to hurt the Russian economy) might have made sense on a short-term basis (to shock Putin into submission) but as a long-term strategy, it’s nuts. And what’s even crazier, is that Obama has decided to double-down on the same wacky plan even though Putin hasn’t given an inch. Check this out from Reuters on Monday:

“The Obama administration has opened a new front in the global battle for oil market share, effectively clearing the way for the shipment of as much as a million barrels per day of ultra-light U.S. crude to the rest of the world...

The Department of Commerce on Tuesday ended a year-long silence on a contentious, four-decade ban on oil exports, saying it had begun approving a backlog of requests to sell processed light oil abroad.

The action comes at a critical juncture for the global oil market. World prices have halved to less than \$60 a barrel since the summer as top exporter Saudi Arabia, once a staunch defender of \$100 oil, refused to cut production in the face of surging U.S. shale output and tempered global demand...

With global oil markets in flux, it is far from clear how much U.S. condensate will find a market overseas.”

Does that make sense to you, dear reader? Why would Obama suddenly opt to change the rules of the game when he knows it will increase supply and push prices down even further? Why would he do that? Certainly, he doesn’t want to inflict more pain on domestic producers, does he?

Let's let Obama answer the question for himself. Here's a clip from an NPR interview with the president just last week. About halfway through the interview, NPR's Steve Inskeep asks Obama: "Are you just lucky that the price of oil went down and therefore their currency collapsed or ...is it something that you did?"

Barack Obama: If you'll recall, their (Russia) economy was already contracting and capital was fleeing even before oil collapsed. And part of our rationale in this process was that the only thing keeping that economy afloat was the price of oil. And if, in fact, we were steady in applying sanction pressure, which we have been, that over time it would make the economy of Russia sufficiently vulnerable that if and when there were disruptions with respect to the price of oil — which, inevitably, there are going to be sometime, if not this year then next year or the year after — that they'd have enormous difficulty managing it." (Transcript: President Obama's Full NPR Interview)

Am I mistaken or did Obama just admit that he wanted "disruptions" in the "price of oil" because he figured Putin would have "enormous difficulty managing it"?

Isn't that the same as saying that it was all part of Washington's plan; that plunging prices were just the icing on the cake for their asymmetrical attack on the Russian economy? It sure sounds like it. And that would also explain why Obama decided to allow domestic producers to dump more oil on the market even though it's going to send prices lower. Apparently, none of that matters as long as the policy hurts Russia.

So maybe the US-Saudi oil collusion theory isn't so far fetched after all. Maybe Salon's Patrick L. Smith was right when he said:

"Less than a week after the Minsk Protocol was signed, Kerry made a little-noted trip to Jeddah to see King Abdullah at his summer residence. When it was reported at all, this was put across as part of Kerry's campaign to secure Arab support in the fight against the Islamic State.

Stop right there. That is not all there was to the visit, my trustworthy sources tell me. The other half of the visit had to do with Washington's unabated desire to ruin the Russian economy. To do this, Kerry told the Saudis 1) to raise production and 2) to cut its crude price. Keep in mind these pertinent numbers: The Saudis produce a barrel of oil for less than \$30 as break-even in the national budget; the Russians need \$105.

Shortly after Kerry's visit, the Saudis began increasing production, sure enough — by more than 100,000 barrels daily during the rest of September, more apparently to come...

Think about this. Winter is coming, there are serious production outages now in Iraq, Nigeria, Venezuela and Libya, other OPEC members are screaming for relief, and the Saudis make back-to-back moves certain to push falling prices still lower? You do the math, with Kerry's unreported itinerary in mind, and to help you along I offer this from an extremely well-positioned source in the commodities markets: "There are very big hands pushing oil into global supply now," this source wrote in an e-mail note the other day." ("What Really Happened in

Beijing: Putin, Obama, Xi And The Back Story The Media Won't Tell You", Patrick L. Smith, Salon)

## **Vladimir Putin: Public Enemy Number 1**

Let's cut to the chase: All these oil shenanigans are really aimed at just one man: Vladimir Putin. There are a number of reasons why Washington wants to get rid of Putin, the first of which is that the Russian president has become an obstacle to US plans to pivot to Asia. That's the main issue. As long as Putin is calling the shots, there's going to be growing resistance to NATO's push eastward and Washington's military expansion across Central Asia which could undermine US plans to encircle China and remain the world's only superpower. Here's an excerpt from Zbigniew Brzezinski's *The Grand Chessboard* which helps to explain the importance Eurasia is in terms of Washington's global ambitions:

"..how America 'manages' Eurasia is critical. A power that dominates Eurasia would control two of the world's three most advanced and economically productive regions. A mere glance at the map also suggests that control over Eurasia would almost automatically entail Africa's subordination, rendering the Western Hemisphere and Oceania (Australia) geopolitically peripheral to the world's central continent. About 75 per cent of the world's people live in Eurasia, and most of the world's physical wealth is there as well, both in its enterprises and underneath its soil. Eurasia accounts for about three-fourths of the world's known energy resources." (p.31) (Zbigniew Brzezinski, *The Grand Chessboard: American Primacy And It's Geostrategic Imperatives*, Key Quotes From Zbigniew Brzezinski's Seminal Book)

Get it? Prevailing in Asia is the administration's top priority, which is why the US is rapidly moving its military assets into place. Check this out from the World Socialist Web Site:

"Under Obama's "pivot to Asia," the Pacific Command will account for more than 60 percent of all US military forces, up from 50 percent under the Bush administration. This includes new US basing arrangements in the Philippines, Singapore and Australia, as well as renewed close military ties to New Zealand, and ongoing US military exercises in Thailand, Malaysia, Indonesia and Taiwan...(as well as) large troop deployments in Japan and South Korea, including nuclear-armed units." (The global scale of US militarism, Patrick Martin, World Socialist Web Site)

The "Big Shift" is already underway, which is why obstacles have to be removed and Putin's got to go.

Second, Putin has made himself a general nuisance vis a vis US strategic objectives in Syria, Iran and Ukraine. In Syria, Putin has thrown his support behind Assad who the US wants to topple in order to redraw the map of the Middle East and build gas pipelines from Qatar to Turkey to access the lucrative EU market.

Third, Putin has strengthened a number of coalitions and alliances –the BRICS bank, the Eurasian Economic Union, and the Shanghai Cooperation Organization—all of which pose a challenge to US dominance in the region as well as a viable alternative to neoliberal financial

institutions like the IMF and World Bank. Going back to Brzezinski's "chessboard" once again, we see that the US should not feel threatened by any one nation, but should be constantly on-the-lookout for "regional coalitions" which could derail its plans to rule the world. Here's Brzezinski again:

"...the three grand imperatives of imperial geostrategy are to prevent collusion and maintain security dependence among the vassals, to keep tributaries pliant and protected, and to keep the barbarians from coming together." (p.40)

"Henceforth, the United States may have to determine how to cope with regional coalitions that seek to push America out of Eurasia, thereby threatening America's status as a global power." (p.55) (Zbigniew Brzezinski, *The Grand Chessboard: American Primacy And It's Geostrategic Imperatives*, Key Quotes From Zbigniew Brzezinski's Seminal Book)

As a founding member and primary backer of these organizations, (and initiator of giant energy deals with China, India and Turkey) Putin has become Washington's biggest headache and a logical target for regime change.

Finally, Putin is doing whatever he can to circumvent dollar-denominated business and financial transactions. The move away from the buck is a direct attack on the US's greatest source of power, the ability to control the de facto international currency and to require that other nation's stockpile dollars for their energy purchases which are then recycled into US financial assets, stocks bonds and US Treasuries. This petrodollar-recycling scam allows the US to run gigantic current account deficits without raising interest rates or reducing government spending. Putin's anti-dollar policies could diminish the greenback's role as reserve currency and put an end to a system that institutionalizes looting.

This is why Putin is Public Enemy Number 1. It's because he's blocking the US pivot to Asia, strengthening anti-Washington coalitions, sabotaging US foreign policy objectives in the Middle East, creating institutions that rival the IMF and World Bank, transacting massive energy deals with critical US allies, increasing membership in an integrated, single-market Eurasian Economic Union, and attacking the structural foundation upon which the entire US empire rests, the dollar.

Naturally, Washington's powerbrokers are worried about these developments, just as they are worried about the new world order which is gradually taking shape under Putin's guidance. But, so far, they haven't been able to do anything about it. The administration's regime change schemers and fantasists have shown time-and-again that they're no match for Bad Vlad who has beaten them at every turn.