

Another “Conspiracy Theory” Becomes Fact: The Great Oil Market Collapse Is All About Crushing Russian Control Over Syria

By [Zero Hedge](#)

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While the markets are still debating whether the price of oil is more impacted by the excess pumping of crude here, or the lack of demand there, or if it is all just a mechanical squeeze by momentum-chasing HFT algos who also know to buy in the milliseconds before 2:30pm, we bring readers' attention back to what several months ago was debunked as a deep conspiracy theory.

Back then [we wrote about a certain visit by John Kerry to Saudi Arabia, on September 11](#) of all days, to negotiate a secret deal with the now late King Abdullah so as to get a “green light” in order “to launch its airstrikes against ISIS, or rather, parts of Iraq and Syria. And, not surprising, it is once again Assad whose fate was the bargaining chip to get the Saudis on the US’ side, because in order to launch the incursion into Syrian sovereign territory, it

“took months of behind-the-scenes work by the U.S. and Arab leaders, who agreed on the need to cooperate against Islamic State, but not how or when. The process gave the Saudis leverage to extract a fresh U.S. commitment to beef up training for rebels fighting Mr. Assad, whose demise the Saudis still see as a top priority.”



We concluded:

Said otherwise, the pound of flesh demanded by Saudi Arabia to “bless” US airstrikes and make them appear as an act of some coalition, is the removal of the Assad regime. Why? So that, [as we also explained last year](#), the holdings of the great Qatar natural gas fields can finally make their way onward to Europe, which incidentally is also America’s desire – what better way to punish Putin for his recent actions than by crushing the main leverage the Kremlin has over Europe?

Because at the end of the day it is all about energy. We made as much very clear one month later when in mid-October we said “[If The Oil Plunge Continues, “Now May Be A Time To Panic” For US Shale Companies](#).” The panic time has long since come, but only after we laid out the problem clearly enough for all to grasp:

... while we understand if Saudi Arabia is employing a dumping strategy to

punish the Kremlin as per the “deal” with [Obama’s White House](#), very soon there will be a very vocal, very insolvent and very domestic shale community demanding answers from the Obama administration, as once again the “costs” meant to punish Russia end up crippling the only truly viable industry under the current presidency.

As a reminder, the last time Obama threatened Russia with “costs”, he sent Europe into a triple-dip recession.

It would truly be the crowning achievement of Obama’s career if, amazingly, he manages to bankrupt the US shale “miracle” next.

Of course, all of the above was purely in the realm of the conspiratorial, because the last thing the administration would admit is that the tradeoff to its bargain with Saudi Arabia to implement a (largely failed) foreign policy regarding ISIS (which has grown in size since the coalition campaign) was to put at risk the entire US shale miracle, a miracle which is evaporating in front of everyone’s eyes. And all thanks to that “closest” of US allies in the middle east: *Saudi Arabia*.

It was conspiratorial, that is, until today, when [thanks to the far less “tin foil” NYT](#) one more conspiracy theory becomes conspiracy fact, following a [report](#) that “Saudi Arabia has been trying to pressure President Vladimir V. Putin of Russia to abandon his support for President Bashar al-Assad of Syria, using its dominance of the global oil markets at a time when the Russian government is reeling from the effects of plummeting oil prices.”

From the NYT:

Saudi Arabia and Russia have had numerous discussions over the past several months that have yet to produce a significant breakthrough, according to American and Saudi officials. It is unclear how explicitly Saudi officials have linked oil to the issue of Syria during the talks, but Saudi officials say — and they have told the United States — that they think they have some leverage over Mr. Putin because of their ability to reduce the supply of oil and possibly drive up prices.”

As we predicted, correctly, in September: it was all about Syria:

“If oil can serve to bring peace in Syria, I don’t see how Saudi Arabia would back away from trying to reach a deal,” a Saudi diplomat said. An array of diplomatic, intelligence and political officials from the United States and Middle East spoke on the condition of anonymity to adhere to protocols of diplomacy.

So what would it take for the price of oil to finally jump? Not much: Putin’s announcement that Syria’s leader Bashar is no longer a strategic ally of Russia.

Any weakening of Russian support for Mr. Assad could be one of the first signs that the recent tumult in the oil market is having an impact on global statecraft. Saudi officials have said publicly that the price of oil reflects only global supply and demand, and they have insisted that Saudi Arabia will not let geopolitics drive its economic agenda. But they believe that there could be ancillary diplomatic benefits to the country’s current strategy of allowing oil prices to stay low — including a chance to negotiate an exit for Mr. Assad.

...

“Russia has been one of the Syrian president’s most steadfast supporters, selling military equipment to the government for years to bolster Mr. Assad’s

forces in their battle against rebel groups, including the Islamic State, and supplying everything from spare parts and specialty fuels to sniper training and helicopter maintenance.”

Will Putin relent?

Mr. Putin, however, has frequently demonstrated that he would rather accept economic hardship than buckle to outside pressures to change his policies. Sanctions imposed by the United States and European countries have not prompted Moscow to end its military involvement in Ukraine, and Mr. Putin has remained steadfast in his support for Mr. Assad, whom he sees as a bulwark in a region made increasingly volatile by Islamic extremism.

Actually that’s not it: Syria, as we have been explaining for nearly two years is the critical transit zone of a proposed natural gas pipeline, originating in Qatar, and one which would terminate somewhere in central Europe. The same Qatar which was the “[mystery sponsor of weapons and money to Syrian mercenary rebels](#)” who eventually became ISIS. The same Qatar which is [now directly funding ISIS](#). Of course, if Putin were to handover Syria to the Saudi princes (and to Qatar), he would effectively shoot himself in the foot by ending any leverage Gazprom has over Europe.

This too is very well known to Putin. For now he has shown that he has no intention of abdicating Syria, and losing critical leverage when it comes to being the provider of last resort of European gas:

The Saudis have offered economic enticements to Russian leaders in return for concessions on regional issues like Syria before, but never with oil prices so low. It is unclear what effect, if any, the discussions are having. While the United States would support initiatives to end Russian backing for Mr. Assad, any success by the Saudis to cut production and raise global oil prices could hurt many parts of the American economy.

After the meeting in Moscow in November between Prince Saud al-Faisal, the Saudi foreign minister, and Sergey V. Lavrov, the Russian foreign minister, Mr. Lavrov rejected the idea that international politics should play a role in setting oil prices.

“We see eye to eye with our Saudi colleagues in that we believe the oil market should be based on the balance of supply and demand,” Mr. Lavrov said, “and that it should be free of any attempts to influence it for political or geopolitical purposes.”

Which, in retrospect puts the Ukraine conflict, and the western isolation of Russia in a very simple spotlight – the whole point is to inflict as much pain as possible, so Putin has no choice but to hand over Syria.

Russia is feeling financial pain and diplomatic isolation because of international sanctions stemming from its incursion into Crimea and eastern Ukraine, American officials said. But Mr. Putin still wants to be viewed as a pivotal player in the Middle East. The Russians hosted a conference last week in Moscow between the Assad government and some of Syria’s opposition groups, though few analysts believe the talks will amount to much, especially since many of the opposition groups boycotted them. Some Russia experts expressed skepticism that Mr. Putin would be amenable to any deal that involved removing support for Mr. Assad.

Saudi Arabia's leverage depends on how seriously Moscow views its declining oil revenues. "If they are hurting so bad that they need the oil deal right away, the Saudis are in a good position to make them pay a geopolitical price as well," said F. Gregory Gause III, a Middle East specialist at Texas A&M's Bush School of Government and Public Service.

As for Assad, the Syrian president "has shown no inclination to step aside. He said in a recent interview with Foreign Affairs magazine that the true threat in Syria comes from the Islamic State and Qaeda-affiliated groups that, in his words, make up the "majority" of rebellion. American and Arab officials said that even if Russia were to abandon Mr. Assad, the Syrian president would still have his most generous benefactor, Iran. Iranian aid to the Syrian government has been one of the principal reasons that Mr. Assad has been able to hold power as other autocrats in the Middle East have been deposed.

And as a major oil producer, Iran would benefit if Saudi Arabia helped push up oil prices as part of a bargain with Russia.

"You are going to strengthen your enemy whether you like it or not, and the Iranians are not showing any flexibility here," said Mustafa Alani, an analyst at the Gulf Research Center who is close to the Saudi royal family.

But the military aid that Russia provides to Syria is different enough from what Damascus receives from Iran, its other major supplier, that if "Russia withdrew all military support, I don't think the Syrian Army could function," a senior Obama administration official said.

The conclusion:

A number of Arab nations have been pushing for the Saudis and Russians — polar extremes in their positions toward Mr. Assad — to find common ground on the matter as a step toward ending the carnage of Syria's civil war, now almost four years old. But, as one Arab diplomat put it, "This decision is ultimately in Putin's hands."

And that, ladies and gentlemen, is what the great oil collapse of 2014/2015 is all about. For those who want to know *when* to buy oil, the answer is simple: just after (or ideally before) Putin announces he will no longer support the Assad regime. If, that is, he ever does because that act will effectively destroy all leverage Putin may ever have over Europe, and in the process, also end — quite prematurely — his career.

Until then, every single HFT-induced spike in oil is one to be ultimately faded, because as the past few months have shown, it is the Saudis who set the price, and they will not take no for an answer, even if it means crippling the entire US shale, and energy, industry in the process.

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