

OPEC's Body Blow to Biden Presidency

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Global Research, October 11, 2022
[Indian Punchline](#) 8 October 2022

Region: [Middle East & North Africa](#), [USA](#)

Theme: [Intelligence](#), [Oil and Energy](#)

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The Biden Administration is swiftly establishing a narrative that the recent OPEC decision to cut oil production by two million tonnes is a geopolitical "aligning" by Saudi Arabia and Russia. It taps into the Russophobia in the Beltway and deflects attention from the humiliating defeat of President Biden's personal diplomacy with Saudi Arabia. But it is not without basis, either.

Foreign policy was reputed to be Biden's forte but is turning out to be his nemesis. An ignominious end is not unlikely; as with Jimmy Carter, West Asia may become the burial ground of his carefully cultivated reputation.

The magnitude of what is unfolding is simply staggering. Biden realises belatedly that territorial conquests in Ukraine is not the real story but embedded in it is the economic war and within that is the energy war that has been incubating through the past 8-month period following the Western sanctions against Russia.

The paradox is, even if Zelensky wins the war, Biden would still have lost the war unless he wins the energy war and goes on to win the economic war as well.

President Vladimir Putin visualised such an outcome as far back as in 2016 when on the sidelines of the G20 Hangzhou summit, the tantalising idea of OPEC+ crystallised between him and then Saudi Deputy Crown Prince Mohammed bin Salman.

I wrote at that time that "An understanding between Russia and OPEC holds the potential to completely transform the geopolitical alignments in the Middle East... This shift cannot but impact petrodollar recycling, which has been historically a robust pillar of the western financial system. In strategic terms, too, Washington's attempt to 'isolate' Russia is rendered ineffective." That was 6 years ago. (See [Pay heed to the butterfly effect of Putin-Salman oil deal in Hangzhou](#), Asia Times, Sept. 7, 2016)

The debris that surrounds Biden today is a large messy pile. He didn't realise that the lackadaisical way the Russian offensive in Ukraine rolled on because Putin was

concentrating on the economic war and the energy war, the outcome of which will determine the future of the US' global hegemony, which has been riveted on the dollar being the reserve currency.

Precisely, back in the early 1970s, Saudi Arabia agreed that the price of oil should be determined in dollars and that oil, the world's most widely traded commodity, be internationally traded in dollars, which virtually mandated that every country on the planet ought to hold dollar reserves in order to buy oil. The US, course, reciprocally pledged on its part that free access to dollar was guaranteed for all countries.

However, it turned out to be a phoney assurance in the wake of the rampant weaponisation of dollar and the US' preposterous moves to grab other countries' dollar reserves. Unsurprisingly, Putin has been harping on the need for setting up a reserve currency alternative to the dollar, and that finds resonance in the world opinion.

All indications are that the White House, instead of introspection, is considering new forms of punishment for Saudi Arabia and Russia. While "punishing" Russia is difficult since the US has exhausted all options, Biden probably thinks the US holds Saudi Arabia by its jugular veins: being supplier of weaponry and custodian of massive Saudi reserves and investments and being the mentor of Saudi elites.

Brian Deese, the director of the National Economic Council, told reporters Thursday, "I want to be clear on this (OPEC production cut), the president has directed that we have all options on the table and that will continue to be the case." Earlier on Thursday, Biden himself told reporters that the White House is "looking at alternatives."

Neither Biden nor Deese explicitly named what those "alternatives" might be, other than to reiterate their ability to pull from strategic petroleum reserves, lean on energy companies to reduce consumer prices and work with Congress to consider legislative options.

This is a foreign policy black eye for Biden who is facing ridicule over his trip to Saudi Arabia in July, which was excoriated by Democrats and Republicans alike. The US political elites feel that the OPEC decision looks like a targeted Saudi move to weaken Biden and Democrats in advance of the November elections. [They are furious.](#)

Potentially, this could have an impact beyond the US-Saudi relationship and could change the security picture in West Asia more than anything since the 1979 Iranian Revolution. Already, the Shanghai Cooperation Organisation is slouching toward West Asia with Iran joining it and Saudi Arabia, UAE, Qatar, Bahrain, Kuwait and Egypt being granted status as dialogue partners and Turkey intending to seek full membership. In the broader terms of de-dollarisation, the SCO summit in Samarkand drew up a roadmap for the gradual increase in the share of national currencies in mutual settlements, flagging the seriousness of its intention.

Now, the American defence industry will stiffly resist any attempts to unwind its business in Saudi Arabia, and it has extremely close ties to Biden administration. But Washington may work for some sort of regime change in Riyadh. Prince Salman has said he "does not care" if Biden misunderstands him. There is little affection between them. The point is, this is not a mere hiccup.

A colour revolution is unrealistic but a palace coup to block MBS from succession is a

possibility. But it is risky as a coup attempt will probably fail. Even if it succeeds, will a successor regime have legitimacy regionally and be able to establish control? A chaotic situation like in post-Saddam Hussein Iraq may ensue. The consequences can be disastrous for the stability of the oil market and rocky for the world economy. It could lead to the upsurge of Islamist groups.

What rankles Biden is that his last trump card to reduce Russia's high oil revenues without depressing supply through a "price cap" is in reality a conundrum that has become a lot more difficult now. Hence Biden's rage that the Saudis have "sided" with Russia, which will now not only benefit from higher oil prices ahead of a price cap, but if Russia indeed is ever called upon to sell oil at a discount, at least the reduction will start at a higher price level!

As FT put it, "The kingdom and its allies in the Gulf are unlikely to turn their back on Russia. The Gulf states have not spoken out against the Ukraine invasion, and bringing Russia closer to the OPEC fold has been a long-term aim."

The heart of the matter is that what Biden has done to Russia by grabbing that country's reserves cannot but unnerve the Saudis and other Gulf regimes. They see the latest "price cap" project against Russia as setting a dangerous precedent that one day can lead to US attempts to control oil prices and even a direct attack on the oil industry.

Suffice to say, Russia cannot be cornered through the next 3-4 year period at least when there is such a tight-rope walk ahead. The OPEC+ decision is poised to benefit Russia in multiple ways. It will buoy Russia's oil revenue heading into winter, when demand for Russian energy from Europe typically rises — in essence, help Russia maintain market share even if its production in absolute terms drops off.

Ironically, Moscow won't have to reduce a single barrel of output, as it is already producing well below the agreed OPEC target, while benefiting from higher oil price. Actually, the 2 million barrel cut will be achieved through reduction mainly by OPEC Gulf producers — shouldered by Saudi Arabia (-520,000 bpd), Iraq (-220,000 bpd), the UAE (-150,000 bpd) and Kuwait (-135,000 bpd).

Isn't it amazing that Russian oil companies will benefit from higher prices while at the same time keeping output steady? And this is when the Central Bank in Moscow is likely to have more than recovered the \$300 billion of reserves already that were frozen by the Western central banks at the beginning of the Ukraine war.

In reality, Saudi Arabia and other Gulf states involved with OPEC+ have effectively sided with the Kremlin, which enables Russia to refill its coffers and to limit the impact of western sanctions. The implications are far-reaching — from the Ukraine war to the future relationship between the US and Saudi Arabia, and of course the emergent multipolar world order.

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