

A Perfect Storm in US Foreign Policy

By [M. K. Bhadrakumar](#)

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

Global Research, October 12, 2022

[Indian Punchline](#) 11 October 2022

All Global Research articles can be read in 51 languages by activating the Translate This Article button below the author's name.

To receive Global Research's Daily Newsletter (selected articles), [click here](#).

Follow us on [Instagram](#) and [Twitter](#) and subscribe to our [Telegram Channel](#). Feel free to repost and share widely Global Research articles.

The old adage is that a good foreign policy is the reflection of the national policy. A perfect storm is brewing on the foreign policy front in America triggered by the OPEC decision on Thursday to cut oil production by 2 million barrels a day, which will on the one hand drive up the gas price for the domestic consumer and on the other hand expose the Biden Administration's lop-sided foreign policy priorities.

At its most obvious level, the OPEC decision confirms the belief that Washington has lost its leverage with the cartel of oil-producing countries. This is being attributed to the deterioration of the US' relations with Saudi Arabia during the Biden presidency. But, fundamentally, a contradiction has arisen between the US interests and the interests of the oil producing countries.

Contradictions are nothing new to the geopolitics of oil. The 1970s and 1980s witnessed two major "oil crises." One was man-made while the other was an interplay of historical forces — the Yom-Kippur War of 1973 and the Iranian Revolution of 1979.

In the downstream of the Yom-Kippur War, the Arab nations weaponised oil and proclaimed an oil embargo on western nations which were perceived to have supported Israel in the war. The result was that the price of oil rose nearly 300% in less than 6 months, crippling the world's economy.

President Nixon asked petrol stations not to sell gasoline from Saturday night through until Monday morning. The crisis affected industry more than the average consumer.

In 1979, the Iranian Revolution hit oil production rates and the world's oil supply shrunk by 4%. Panic set in, demand for crude oil shot up and price more than doubled.

The Biden Administration tempted Fate by underestimating the importance of oil in modern economic and political terms and ignoring that oil will remain the dominant energy source across the world for the foreseeable future, powering everything from cars and domestic heating to huge industry titans and manufacturing plants.

A smooth transition to green energy over time is largely dependent on the continued availability of plentiful, cheap fossil fuel. But the Biden Administration ignored that those who have oil reserves wield a huge amount of power over our oil-centred energy systems, and those who buy oil are on the contrary, cripplingly dependent on the market and the diplomatic relations which drive it.

The Western powers are far too naive to think that an energy superpower like Russia can be simply “erased” from the ecosystem. In an “energy war” with Russia, they are doomed to end up as losers.

Historically, Western nations understood the imperative to maintain good diplomatic relations with oil-producing countries. But Biden threw caution into the wind by insulting Saudi Arabia calling it a “Pariah” state. Any improvement in the US-Saudi relations is not to be expected under Biden’s watch. The Saudis distrust American intentions.

The congruence of interests on the part of the OPEC to keep the prices high is essentially because they need the extra income for their expenditure budget and to maintain a healthy investment level in the oil industry. The International Monetary Fund in April projected Saudi Arabia’s breakeven oil price — the oil price at which it would balance its budget — at \$79.20 a barrel.

The Saudi government does not disclose its assumed breakeven oil price. But a [Reuters report](#) suggested that a preferred price level would be around \$90 to \$100 a barrel for Brent crude — at which level, it won’t have a huge impact on the global economy. Of course, over \$100 will be a windfall.

Meanwhile, a “systemic” crisis is brewing. It is only natural that the OPEC views with scepticism the recent moves by the US and the EU to push back Russia’s oil exports. The West rationalises these moves as aimed at drastically reducing Russia’s income from oil exports (which translates as its resilience to fight the war in Ukraine.) The latest G7 move to put a cap on the prices at which Russia can sell its oil is taking matters to an extreme.

The OPEC regards it as a paradigm shift, as it implicitly challenges the cartel’s assumed prerogative to ensure that global oil supply matches demand, where one of the key measures of supply-demand balance is price. Arguably, the West is de facto setting up a rival cartel of oil-consuming countries to regulate the oil market.

No doubt, the West’s move is precedent-setting — namely, to prescribe for geopolitical reasons the price at which an oil-producing country is entitled to export its oil. If it is Russia today, it can as well be Saudi Arabia or Iraq tomorrow. The G7 decision, if it gets implemented, will erode OPEC’s key role regulating the global oil market.

Therefore, the OPEC is proactively pushing back. Its decision to cut down oil production by 2 million barrels per day and keep the oil price above \$90 per barrel makes a mockery of the G7 decision. The OPEC estimates that Washington’s options to counter OPEC+ are limited. Unlike in the past energy history, the US does not have a single ally today inside the OPEC+ group.

Due to rising domestic demands for oil and gas, it is entirely conceivable that the US exports of both items may be curtailed. If that happens, Europe will be the worst sufferer. In an [interview with FT](#) last week, Belgium’s prime minister Alexander De Croo has warned that as

winter approaches, if energy prices are not brought down,

“we are risking a massive deindustrialisation of the European continent and the long-term consequences of that might actually be very deep.”

He added these chilling words:

“Our populations are getting invoices which are completely insane. At some point, it will snap. I understand that people are angry . . . people don’t have the means to pay it.”

De Croo was warning about the likelihood of social unrest and political turmoil in European countries.

Without doubt, this is a tectonic shift in geopolitics which may probably turn out to be more important than the conflict in Ukraine in the making of the multipolar world order.

This perfect storm in Biden’s foreign policy can also impact the midterms in November and deliver a Republican majority in the Senate, which could set the tempo for the 2024 US presidential election.

The Kremlin spokesman [Dmitry Peskov has said](#) that by turning away from Russian energy, Europe has become a captive market for the US oil companies which are now making “crazy money,” but the high cost of it is draining away the competitiveness of the European economy.

“Production is collapsing. Deindustrialization is coming. All this will have very, very deplorable consequences for the European continent over probably, at least, the next 10-20 years,” Peskov said.

Russia could be the biggest “gainer” of OPEC+cuts. The expert opinion is that oil prices will move higher from current levels through year-end and next year. That is to say, Russia will not cut any output while the price of oil is set to rise in the coming months! As oil price rises, Russia will not have to cut even a barrel of its production so long as it has a big enough market after December to sell the crude now going to Europe. Again, Russia, for its part, reiterates that it will not supply oil to countries that would join the G7 price cap. It is matching the Biden Administration’s non-market instruments.

*

Note to readers: Please click the share buttons above or below. Follow us on Instagram and Twitter and subscribe to our Telegram Channel. Feel free to repost and share widely Global Research articles.

The original source of this article is [Indian Punchline](#)
Copyright © [M. K. Bhadrakumar](#), [Indian Punchline](#), 2022

[Comment on Global Research Articles on our Facebook page](#)

[Become a Member of Global Research](#)

Articles by: [M. K. Bhadrakumar](#)

Disclaimer: The contents of this article are of sole responsibility of the author(s). The Centre for Research on Globalization will not be responsible for any inaccurate or incorrect statement in this article. The Centre of Research on Globalization grants permission to cross-post Global Research articles on community internet sites as long the source and copyright are acknowledged together with a hyperlink to the original Global Research article. For publication of Global Research articles in print or other forms including commercial internet sites, contact: publications@globalresearch.ca

www.globalresearch.ca contains copyrighted material the use of which has not always been specifically authorized by the copyright owner. We are making such material available to our readers under the provisions of "fair use" in an effort to advance a better understanding of political, economic and social issues. The material on this site is distributed without profit to those who have expressed a prior interest in receiving it for research and educational purposes. If you wish to use copyrighted material for purposes other than "fair use" you must request permission from the copyright owner.

For media inquiries: publications@globalresearch.ca