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Oil Price Manipulation as a Geoeconomic Weapon Against the Soviet Union / Russia

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Abstract

In modern geopolitics economic warfare has become more and more significant. This paper examines a special segment of economic warfare: can oil price be manipulated and serve as an effective geopolitical (or geoeconomic) weapon, and if that is the case, under what conditions? This article demonstrates that the United States and its allies (mainly Saudi Arabia)—when certain economic, technological, and political conditions are fulfilled—may be able to achieve a considerable and lasting decline in oil prices to restrain the military/geopolitical activities of the Soviet Union/Russia that are deemed overly excessive. This paper analyses the relationship between the oil market and geopolitics in the last decade of the Cold War, when the oil price fell sharply contributing to the collapse of the Soviet economic and political system. Research results may prove useful in forming the geopolitical/geoeconomic strategy of superpowers, and it may be applied to forecast oil price fluctuations too.

Keywords: Economic Warfare, Geoeconomics, Oil, Russia, Soviet Union.

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1. Introduction

Since the time global superpowers have possessed a nuclear arsenal capable of wreaking destruction at an unimaginable scale, the probability of direct armed conflicts between them has fallen to a minimum. Superpowers are especially concerned with the catastrophic results of a direct military confrontation and use every possible means at their disposal to attempt to prevent it[1], consequently new methods were needed to be identified to enforce their geopolitical interests in an international setting. For this reason, alternative means in geopolitical competition have gained more and more significance, such as hybrid warfare, gathering intelligence and diplomatic struggles, destabilization of domestic politics, interfering with elections, cyber warfare or even economic warfare targeting resources.

This article examines whether a special segment in economic warfare, namely the manipulation of oil prices, could be an effective economic tool in the geoeconomic toolbox of major powers, and under what circumstances. In the present study, we shall examine the relationship between the oil market and the global geopolitical situation of major stakeholders during the last decade of the Cold War.

In the wake of two oil price booms in the 1970s, the price of oil increased considerably. As a result, the revenues of the Soviet Union—being a major oil exporter—grew significantly and consequently its geopolitical activity had been expanding all around the world (e.g.: Nicaragua, Yemen, Ethiopia, Angola, Mozambique, Afghanistan). This increased Soviet geopolitical activity significantly jeopardized the interests of the United States, but because of the powerful military and the nuclear arsenal of the Soviet Union, a direct military confrontation was not a realistic alternative in restraining the Soviets; therefore, the Unites States was in need of finding other means to contain the communist expansion. In the mid-1980s, oil prices collapsed, and the revenues of the Soviet Union decreased drastically, making it to plunge into economic recession and crumble both economically and politically by 1991.

Our hypothesis is the following: the sudden collapse of the oil prices in the mid-1980s was not the result of accidental market processes rather a

1. In April 2017, for example, the Pentagon notified Russia in advanced when it launched a missile strike from the USS Porter and USS Ross destroyers against the Shayrat military base in Syria, because the Russian military also used the same Syrian military base.

geoeconomic assault against the Soviet Union by the United States and its allies.

2.Research Methodology

Authors used analytical-descriptive methods to describe the results of the research. Both qualitative and quantitative methods were applied on the basis of library research (journals, books), SIPRI and British Petrol numerical databases, archives of the CIA used, as well as online contents in connection with the oil market and Cold War conflicts.

SIPRI (Stockholm International Peace Research Institute) database contains annual military expenditure of countries in terms of "local currency", "constant USD", "current USD", "share of GDP" and "per capita" (SIPRI, 2021). "Current USD" dataset had been used in this paper to present the American military expenditure between 1970 and 1985. Since the SIPRI database does not contain data on Soviet military expenditures for the period above, we determined Soviet military expenditures on the basis of Firth-Noren book, title: "Soviet Defense Spending: A History of CIA Estimates 1950-1990" (Firth-Noren,1998).

British Petrol database contains annual oil production and consumption data of countries in terms of "barrels" and "tonnes" between 1965 and 2021 (British Petrol,2021). Annual oil consumption and oil production data in terms of "barrel" had been used in this article to present oil market processes in the 1980s. British Petrol database contains "Oil - spot crude prices" for different crude oil types: Dubai, Brent, Nigerian-Forcados, West Texas Intermediate (WTI). Dubai prices had been used in this paper to present oil price trends in the 1970s and 1980s, because British Petrol database contains Dubai price data from 1972, while Brent, Nigerian-Forcados and WTI prices included only from 1976, so the oil price hike in 1973 could be presented only with the Dubai dataset.

Since available literature of geoeconomics in English language is largely related to Western authors, the theoretical background of this article also primarily reflects the Western, first of all the American narratives of geoeconomics. While Baldwin, Blackwell-Harris and Fishman support the wider use of economic warfare tools, Hazel, Weisbrot-Sachs and Weiss express strong criticisms of economic warfare, specially in the case of the United States (Baldwin,1985; Blackwill-Harris,2016; Fishman,2017; Hazel, 2020; Weisbrot-Sachs,2019, Weiss,1997).

Historical articles and books were analysed in connection with the economic struggles of the Cold War. Dobson and Schweizer analyse the impact of the economic warfare on the entire Soviet economy, Davis, Firth-Noren and Hauner analyse the impact of economic warfare on the Soviet military potential (Davis,2002; Dobson,2005; Firth-Noren,1998; Hauner,1991, Schweizer,1994).

Middle Eastern and Western authors were also reviewed to assess the geopolitical situation of the Persian Gulf Region. While Akhbari presents the role of crude oil and natural gas in the development of the geopolitical situation of the "energy ellipse" in the Middle East, Hafeznia analyses the characteristics of "buffer spaces" such as the Persian Gulf (Akhbari,2018; Hafeznia and et al,2013). Mossalanejad in his articles outlines the role of the United States in the geopolitical processes of the Middle East region (Mossalanejad,2008 and 2019).

Gatley analyses the oil price collapse in 1986, while Hahn presents the Eisenhower Doctrine, which determined the direction of the Middle Eastern policy of the United States in the Cold War (Gatley,1986; Hahn,2006).

British Petrol database was used to draw oil market processes (demand, supply and price) (British Petrol,2021). SIPRI database and Firth-Noren book were used to demonstrate the evolution of military spendings of the United States and the Soviet Union during the Cold War (SIPRI,2021; Firth-Noren,1998).

To begin with, authors applied qualitative-descriptive methodology to present the theoretical framework of economic warfare and the role of oil as a strategic resource in geoeconomics. As a next step, oil market processes were exposed as secondary quantitative-descriptive data for the last decade of the Cold War based on “British Petrol – Statistical Review of World Energy 2021” database (British Petrol,2021).

Qualitative methods were applied to analyse the controversial market behaviour of Saudi Arabia in the 1980s on the basis of the related literature (Yergin,1991).

Authors applied qualitative and quantitative descriptive methods presenting economic warfare between the United States and the Soviet Union mainly on the basis of documents from the archive of the CIA (CIA,1951,1977, 1982,1983,1985). Qualitative-descriptive methods were employed to present the geopolitical status of Saudi Arabia in the 1980s on the basis of related literature.

In the next stage authors applied qualitative-descriptive methods to exhibit the specific geoeconomic tools of the United States and quantitative-analytical methods to analyse their impacts on the Soviet economy. Authors applied qualitative and quantitative analytical methods to set out the aspects of the optimal oil prices for the United States (using the British Petrol database) and to analyse the conditions under which it is possible to manipulate oil prices (British Petrol,2021).

3.Theoretical Framework

Defining the concept of "economic warfare" in geoeconomics shows considerable differences in the academic literature. According to Encyclopedia Britannica, economic warfare is "the use of, or the threat to use, economic means against a country in order to weaken its economy and thereby reduce its political and military power. Economic warfare also includes the use of economic means to compel an adversary to change its policies or behaviour or to undermine its ability to conduct normal relations with other countries" (Encyclopedia Britannica,2002). Encyclopedia Britannica gives some examples of economic warfare tools, such as "trade embargoes, boycotts, sanctions, tariff discrimination, the freezing of capital assets, the suspension of aid, the prohibition of investment and other capital flows, and expropriation" (Encyclopedia Britannica,2002). This article—in accordance with Blackwill-Harris—provides a broader interpretation for the concept of economic warfare (Blackwill-Harris,2016). It also includes instruments that are not publicly declared, for example market operations having geopolitical objectives, offensives against the financial/economic systems, moreover, enforcement of the arms race.

Economic warfare has the same age as human history. We are aware of examples from ancient times, when geopolitical opponents tried to use economic means to weaken the economic potential of their opposing party and undermine this way its political and military power.[1]

Deliberate economic warfare strategy appeared as early as the end of WWI, in US President Woodrow Wilson's geopolitical strategy, and later it became the cornerstone of valid geopolitical thinking in the second half of the 20th century (Wilson,1942). United States began elaborating (and

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1.E.g., in 405 BC in the Aigospotami naval battle the Spartan navy cut off the grain transport sea route of Athens. Without sufficient grain supply Athens lost the Peloponnesian War in a short time.

testing) its sophisticated system of economic instruments during the Cold War in its geopolitical struggles against the Soviet Union (CIA,1951). In the last phase of the Cold War, Baldwin authored a comprehensive book on the assets, objectives and mechanisms of actions required to perform economic warfare, abandoning earlier—typically pessimistic—approaches, and provided reasons for the increased practical application of economic warfare (Baldwin,1985). The geopolitical approach with an economic view was termed “geo-economics” by Luttwak; in his article, he emphasized that in the new geopolitical era “methods of commerce are displacing military methods—with disposable capital in lieu of firepower, civilian innovation in lieu of military-technical advancement, and market penetration in lieu of garrisons and bases” (Luttwak,1990). Economic warfare is still an important—more and more vital—element of geopolitical strategy of the great powers and sometimes also of regional powers (Fishman,2017), although Blackwill argues that the United States is less likely to use geoeconomic tools in its geopolitical strategy than it would be necessary, while other countries—such as China, Russia or Persian Gulf states—reached a respectable progress in this field in the last two decades (Blackwill-Harris,2017).

The instruments of economic warfare—such as trade embargoes, boycotts, sanctions, tariff discrimination, the freezing of capital assets, the suspension of aid, the prohibition of investment and other capital flows, furthermore, the expropriation of funds and assets—may be applied separately or in combination with one another. For a more effective implementation, they can also be combined with other means of exerting pressure. Prior to the application of geoeconomic instruments, one must always take into consideration what kind of economic, political, or even military countermoves the country to be sanctioned is capable of and whether it is able to cause meaningful damage, and whether such potential damage is proportionate to the potentially gained—political or economic—benefits of economic warfare.

Although the avoidance of wars and the suffering caused by wars to populations involved is an important objective of economic warfare, single economic attacks may cause unmeasured suffering to millions or the death of thousands of people if the given sanctions lead to food or medicine shortages in the state under sanctions (Weiss,1997). One of the most widely known humanitarian disasters of this kind was caused by the comprehensive economic sanctions the UN Security Council imposed against Iraq in 1990, where academic literature estimates the number of victims to be in the magnitude of hundreds of thousands, most of them were children (Gottstein, 1999). In recent years, in addition to the economic problems afflicting the country, the suffering of the local population was aggravated by economic sanctions imposed against Venezuela and North Korea too (Weisbrot, 2019). As a matter of fact, geopolitical struggles keep causing severe suffering among populations in the new era of geoeconomics; however, the aspect of this suffering—usually less spectacular and less publicized by the media—is different from what we might see in the case of wars, and consequently, it seems that the public opinion around the world pays less attention to these forms of hardship.

The application of economic sanctions carries stringent international legal aspects, too (UN or WTO treaties), but the examination of these aspects would go beyond the scope of the present study; therefore, this article will not deal with such aspects.

4.The Role of Oil in Economic Warfare

In his book entitled 'The Prize', Daniel Yergin presents the historical relationship between oil markets and geopolitics (Yergin,1991). He describes the cycles and internal logic of oil price hikes and decreases in the light of geopolitical processes and points out the role of oil in certain decisive geopolitical processes of the history.

The commodity traded in the largest volume globally is oil. Based on 2017 data, the annual revenue of the oil market was about USD 1,700 billion (in comparison gold was traded for 170 billion USD, while global iron, copper and aluminium markets showed a turnover of about 115-115 billion USD) (Syed,2017). It is evident, therefore, that in economic warfare, when the geopolitical strategists are planning geoeconomic operations, the economic instruments related to the oil market—in addition to financial markets—gain priority both in case of oil exporting or oil importing countries (Iran, Venezuela or Cuba, North Korea). Nevertheless, not only the volume limitations imposed on the sale and purchase of oil can be an economic burden for a country, but a steep and lasting decline or hike in the oil prices, too. This is especially true for oil exporting countries where a considerable proportion of the country's revenues, GDP and governmental expenditure depend on the value of its oil exports.

Our definition of oil price manipulation is as follows: the price of oil is determined not only by supply and demand related decisions based on the economic interests of market participants, but also by a privileged actor with significant weight on the oil market, who makes its decisions regarding own oil demand or supply in pursuit of geopolitical goals, in order to divert the oil price permanently from the economic market price and weaken its geopolitical adversaries.[1]

5.Results and Discussion

5-1. Oil Price Decrease in the mid-1980s

The price of oil was 2 USD/barrel in 1972, which was followed by two oil price hikes (in 1973 and in 1979), which resulted in the price of oil exceeding 36 USD by 1980 (18-fold (!) increase in 8 years). The price of oil began a moderate slide in the first half of the 80s, then it took a plunge in 1986: it fell by 64% compared to its peak in 1980. Schweizer argues that it was not independent of Cold War struggles (Schweizer,1994). Salameh assumes also a close correlation between the declining oil prices and the geopolitical cooperation of the American-Saudi alliance (Salameh,2015). In the following chapter, we will review whether their statement can be justified on the basis of oil market and geopolitical data.

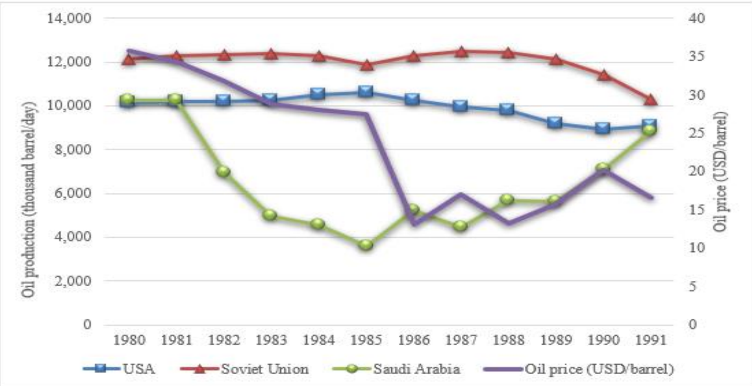

Figure (1): Oil Production of the Three Main Oil Producers and Oil Price (1980-1991)

(**Source** of data: British Petrol, figure compiled by the authors)

1.Besides the oil market, financial markets are also especially suitable for the purposes of geoeconomics actions. Shorting national currencies or government bonds may even cause a state to go bankrupt.

After the 1979 oil price boom, major oil producers increased their extraction to the maximum, because the extra profits that could be earned on the oil market had reached previously unseen levels. In 1982 Saudi Arabia began to steeply reduce its oil production claiming that its aim is to maintain the high oil price level. With the steep reduction of its oil extraction, Saudi Arabia renounced significant profits and made stronger its geopolitical adversaries, such as the Soviet Union and Iran. The reduction of Saudi oil production was a seemingly illogical step for several reasons:

(1) By sharply cutting production, Saudi Arabia denied itself substantial profit. In the second half of the ‘80s Saudis sold oil for 16 USD/bbl, which oil could have been sold for 25-30 USD in the first half of the ‘80s (while in this period Saudi Arabia struggled with an enormous budget deficit).

(2) Geopolitical adversaries of the Saudis (mainly the Soviet Union and Iran), however, generated substantial profits from the ‘altruist’ Saudi manoeuvre, as a result, their strengthening military potential—boosted by high oil prices—posed a real military threat to Saudi Arabia.

(3) Non-OPEC producers (United Kingdom) peaked production, while the OPEC producers also regularly breached their quota commitments, whereby these countries reaped the benefits Saudi Arabia voluntarily declined.

(4) The significant oil market loss of the Saudis also reduced the Saudi influence on Middle Eastern politics and the Arab–Israeli conflict (Yergin, 1991).

(5) In the 1970s, Saudi Arabia stated on multiple occasions that an oil price higher than the 10-13 USD would be unfavourable for the country; therefore, at the OPEC meetings, it firmly resisted any attempts at price increases (Yergin,1991). If in 1978 Saudi Arabia considered 13 USD oil price to be too high, it is hard to believe that in 1982 it would struggle to stabilize the price of oil in the 25–30 USD range by assuming the above-mentioned burdens and risks.

Later, Saudi Minister of Oil Yamani announced in 1985 that Saudi Arabia would like to increase its global market share therefore would significantly expand its production (Gatley,1986). As a result, the price of oil began a steep decline, from 26 USD at the end of 1985 to 13 USD in 1986 and in the five subsequent years—thanks to the Saudi oil production gradually expanding year by year—it remained constantly low (in the 13–21 USD zone), which significantly contributed to the economic, and subsequently

the political collapse of the Soviet Union.
It is important to mention that, like Saudi Arabia, two other OPEC member states (United Arab Emirates and Kuwait, which often coordinate their oil market movements with Saudi Arabia) behaved similarly to Saudi Arabia in the oil market in the 1980s. They significantly reduced their oil production from 1980 to the middle of the decade, and they increased dynamically from the middle of the decade onwards. Thus, it can be stated that the fall in oil prices, which was very unfavourable for the Soviet Union, was caused not only by Saudi Arabia but also by other OPEC member states (total OPEC production decreased by 39 % between 1980 and 1985, and then grew by 49 % until 1990), nevertheless, Saudi Arabia played the most significant role in the decline of the oil prices (British Petrol,2021).
The decline in oil prices can theoretically be attributable not only to supply, but also to demand-related causes, and for this reason, in the followings, we will investigate whether there are any detectable demand-side movements that could facilitate the oil price decline in the mid- ‘80s.

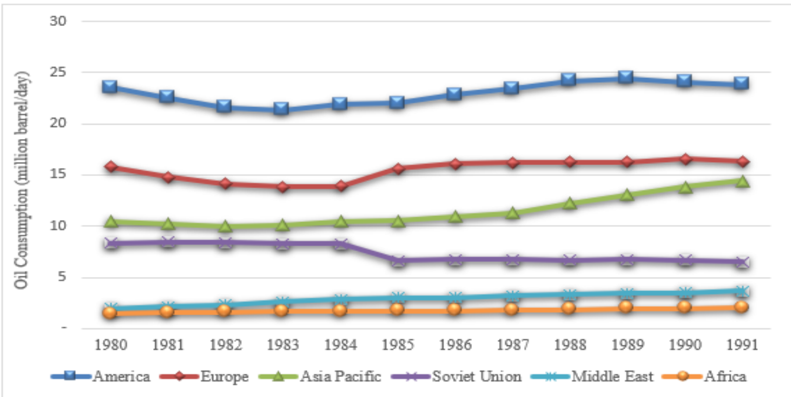

Figure (2): Oil Consumption of the World Regions (1980-1991)
(Source of data: British Petrol, figure compiled by the authors)

This diagram demonstrates that there were no significant movements on the demand side (falling demand) in the period reviewed that could have caused a considerable decline in oil prices, the development of oil consumption over time was close to linear in every region, and it slightly increased from 1985. It can be concluded, therefore, that the causes of the steep decline in oil prices should be identified on the supply side, first of all in the market behaviour of Saudi Arabia, one of the closest allies of the United States.

5-2. The Geopolitical Interests of the United States and the Low Oil Price

In the wake of the two oil price booms in the 1970s, the Soviet Union, as one of the largest oil exporters in the world, earned significantly higher revenues from oil exports, and as a result the size of the government budget and its military budget increased considerably. It is difficult to determine the magnitude of Soviet military spending as no accurate financial records were prepared with regard to it (Noren,1995). According to Davis, in the Soviet Union "prices of defence commodities were set administratively, usually at low levels. The government did not maintain a comprehensive defence budget, even in secret" (Davis,2002:152). Nevertheless, CIA regularly prepared estimates of the Soviet military spending. Firth and Noren presents CIA estimation data in their book (Firth-Noren,1998).

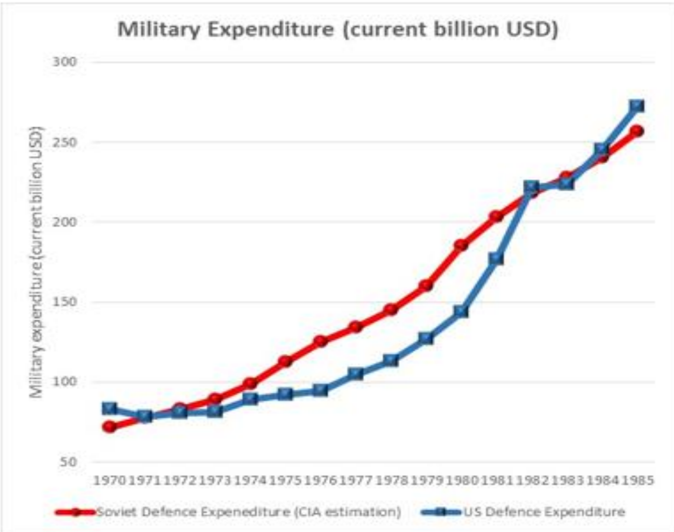

Figure (3): Military Expenditure of the Soviet Union (Estimation) and USA (1970–1985)

(**Source:** Gazdasági hadviselés a hidegháborúban, [Economic Warfare in the Cold War] Glofak,2020)

The above diagram demonstrates that the amount of Soviet military expenditure—as estimated by the CIA—exceeded the defence budget of the United States in the very same period when oil prices were high, between 1973 and 1985. Before and after that period the American defence budget was higher than that of the Soviets. It is important to underscore that in the period examined above, the annual Soviet defence burden (military

expenditure/GDP) was approximately twice as high (12.1 % – 17.8 %) as the American (4.9 % – 9.4 %), which means that the encumbrance of the arms race on the economy of the Soviet Union was twice as high as the burden on the American economy (Davis,2002; SIPRI,2021).
The oil price hike and the resulting increase in the Soviet military budget brought about the intensifying geopolitical activity of the Soviet Union in the '70– '80s (Afghanistan, Cuba, Nicaragua, Angola, Mozambique, Yemen or Ethiopia). The increased geopolitical activity of the Soviets considerably hurt the interests of the United States, but the sizeable Soviet armed forces and its nuclear arsenal made direct armed confrontation an unrealistic alternative to stop the Soviet Union; therefore, the United States was in need of identifying other means. Peter Schweizer argues at length that among these alternatives, the complex strategy of economic warfare ranked the highest, and part of this was—among others—prohibiting technology transfer to the Soviet Union (COCOM system), intensifying the arms race (e.g.: SDI) and reducing oil prices (Schweizer,1994). The core elements in Schweizer's argumentation are also supported by the National Security Decision Directives (NSDD) that determine American national security policy. (Cold War NSDD documents were declassified and published between 2000 and 2010).
The NSDD-66 document dated 29 November 1982 determines the pillars of the economic warfare against the Soviet Union and the cooperation with NATO allies resulting from it (CIA, 1982). According to this strategy, the Soviet income of oil and gas must be minimized and the COCOM system must be tightened (especially highlighting the new technologies used in the oil and gas sector).
According to the NSDD-75 document dated January 1983: "U.S. policy on economic relations with the USSR must serve strategic and foreign policy goals as well as economic interests" (CIA,1983:2). East-West economic relations may not contribute to the strengthening of Soviet military capabilities and the Soviet economy may not be supported with preferential loans.
The United States, therefore, deliberately pursued economic warfare against the Soviet Union, of which it was integral to reduce the revenues of the Soviets earned from the trade of oil and gas. Oil income could be minimized through minimizing quantity and/or minimizing unit price.

5-3. The Geopolitical Interest of Saudi Arabia and the Low Oil Price

The Soviet Union's expansion in the Middle East also had Saudi Arabia worried. By the end of the 1970s, pro-Soviet/communist forces around Saudi Arabia had strengthened considerably especially in Syria, Iraq, South-Yemen, Ethiopia, and Libya.

In addition to these especially worrying facts, the invasion of Afghanistan by the Soviet Union was decisive, because earlier, the Soviet geopolitical actions of the '70s had been more subtle, the Red Army of the Soviets had never been openly deployed. Because of the invasion, Saudi Arabia, and the Muslim states of the Gulf, were rightly concerned that a victory by the Soviet Union in Afghanistan might mean the Red Army continuing its campaign towards the Gulf, the so called "strategic energy ellipse", to put its hands on this region extremely rich in oil (Akhbari,2018). This, naturally, would have threatened the physical existence of the Saudi Kingdom and several other states in the Persian Gulf region.

In the 1970s, Saudi Arabia was threatened not only by the geopolitical expansion of the Soviet Union, but by its regional adversaries too, especially Iran and Libya, which were major oil exporting countries as well, and they—just like the Soviet Union—also greatly profited from the high oil prices and their geopolitical activity was increasing in the region. The Iran-Iraq War that broke out in 1980 was fought directly in Saudi Arabia's neighbourhood (the Saudis openly supported Iraq), Iranian war planes threatened Saudi oil tankers, coastal settlements, and oil industry facilities; furthermore, the Saudi opposition—supported by Iran—posed a serious threat to the Saudi system.

United States "has started to play security role in Middle East since the World War 2" (Mossalanejad,2008:80). It was always aware of the significance of the Persian Gulf, as an important buffer space, as well as an oil producing region (Hafeznia et al, 2013). According to Mossalanejad "The region encompasses a vital strategic importance for three reasons. Its geographic location, its continuing instability, its energy resources." (Mossalanejad,2019:4).

Because of the above-mentioned reasons, the United States shared Saudi fears regarding the Soviet Union. In a 1977 report, the CIA forecasted that the depletion of the oil fields in the Volga-Ural region might lead to a shortage of crude oil in the Soviet Union by the '80s, turning the Soviet Union into a net oil importer, which in turn would generate increased interest by the Soviets in the strategically important Indo-Persian Corridor and in the oil-rich Gulf region (CIA,1977). The concerns as to the peaceful or aggressive nature of this interest were only fuelled by the Soviet Union's invasion of Afghanistan at the end of 1979 (Hauner,1991). The United States was worried that if the oil-rich Gulf region fell into the hands of the Soviets, communist expansion in the world—with the high oil prices—would be unstoppable. This threat had been perceived even by more US Presidents before, Eisenhower promised military aid to the Middle East states in 1957, should they be threatened by international communist expansion (Eisenhower Doctrine (Hahn,2006)). This American commitment was reinforced by the Carter doctrine too in 1980 in the wake of the Soviet Union's invasion of Afghanistan.

NSDD-75 document dated 1983 distinctly mentions the protection of the Middle East region among the most important security policy objectives of the United States: "Blocking the expansion of Soviet influence in the critical Middle East and Southwest Asia regions. This will require both continued efforts to seek a political solution to the Arab–Israeli conflict and to bolster U.S. relations with moderate states in the region, and a sustained U.S. defence commitment to deter Soviet military encroachments" (CIA,1983: 8). Two years later NSDD-166 document discusses the Soviet threat to the Middle East region in relation to the war in Afghanistan, too: "our covert program will deny Afghanistan to the Soviets as a secure base from which to project power and influence in the region." (CIA,1985:1).

In summary, it can be stated that weakening the Soviet Union was the fundamental interest of both the United States and Saudi Arabia in the '80s. The two countries already had wide-ranging geopolitical cooperation in this period. As part of this cooperation the United States sold cutting-edge AWACS air defence system and 400 STINGER missiles to Saudi Arabia (deterring potential Soviet and Iranian air strikes).[1] With the sale of these military assets, Saudi Arabia became indebted to the United States. The United States' commitment to protect the Persian Gulf was further emphasized in 1983, when the Reagan administration established CENTCOM, the independent command centre of the US armed forces responsible for the Middle East region.

1.Israel and several American politicians criticized these arms deals.

In this geopolitical situation Salameh and Schweizer assume American-Saudi geopolitical cooperation on the oil market as well (Salameh,2015; Schweizer,1994). Schweizer argues that falling oil prices and the falling market share of the Soviets resulted steeply falling export revenues in the second half of the ‘80s, this decline significantly contributed to the collapse of the Soviet economy and, as a result, the subsequent political end of the Soviet Union in 1991.

5-4. Economic Warfare and the Role of Oil Price Manipulation in Defeating the Soviet Union

During the Cold War, the United States continuously monitored the vulnerability of the Soviet economy; regular CIA reports were issued on the weaknesses of the Soviet economy and on recommended methods of economic warfare proposed on the basis of the discovered weaknesses (CIA, 1951). Based on the CIA analyses, the United States applied a regularly fine-tuned economic warfare strategy against the Soviet Union; thus, it managed to develop and deploy a wide variety of tools for its economic warfare for decades. In addition to depressed oil prices, such instruments include, for example the pressure to accelerate the arms race, grain embargos, credit limitations and the prohibition of high-tech equipment exports (COCOM) (Glofak,2020). So firstly, Soviet export revenues significantly declined as a result of the low oil prices; secondly, the arms race contributed to the substantial increase in the country’s expenditures, and thirdly, the gap in technological development between the Soviet Union and Western countries increasingly widened on account of the well-performing COCOM system. This gap was reflected in the lower productivity of the Soviet economy and increasingly outdated military technology. The Soviet planned economy—already struggling with severe problems—was unable to cope with the above economic burdens and suffered a crisis by the end of the ‘80s (Glofak,2020).

Figure (4): Soviet Losses Attributed to the Oil Price Plunge Compared to a Theoretically Steady 28 USD Oil Price.
(**Source** of data: British Petrol, figure edited by the authors)

According to our estimation, oil price manipulation caused an estimated loss for the Soviets amounting 113 billion USD during the six years—it means an average of 19 billion USD/year. Our estimation is consistent with Friedman's calculation: "The timeline of the collapse of the Soviet Union can be traced to Sept. 13, 1985. On this date, Sheikh Ahmed Zaki Yamani, the minister of oil of Saudi Arabia, declared that the monarchy had decided to alter its oil policy radically. The Saudis stopped protecting oil prices…" "The Soviet Union lost approximately $20 billion per year, money without which the country simply could not survive" (Friedman,2014).

This is a significant amount, comparing to the estimated cost of the arms race totaling approx. 600 billion USD extra costs for the Soviet economy in the 1980s (10 years period) – which is ca. 60 billion USD/year (Glofak, 2020).

The significance of oil price manipulation is emphasized by Michael Reagan, the son of the former US president, Ronald Reagan. In 2014—during the Russian-Ukrainian armed conflict on the Crimean Peninsula—he drew the attention of the Obama administration to the need of thwarting the Russians with the geostrategic weapon used by his father to defeat the Soviet Union in the '80s: "My father got the Saudis to flood the market with cheap oil. Lower oil prices devalued the ruble, causing the USSR to go bankrupt, which led to perestroika and Mikhail Gorbachev and the collapse of the Soviet Empire." (Reagan,2014).

It is also important to note that while the Soviet Union mainly bore the burden of economic warfare alone having a GDP roughly half of that of the United States'[1], the United States shared these burdens with its economically powerful allies. The United States financed the costs of the arms race mainly alone, while the financial burdens of manipulating oil prices were borne mainly by Saudi Arabia in the form of lost profits. Moreover, the compliance with the COCOM rules caused substantial losses not just for American, but also for Western European, Canadian, Australian, and Japanese companies.

It is also worth noting that the use of economic warfare in the 1980s was also a topic of continuous debate and internal conflict in the United States as well: while the so-called hard-liners (Weinberger, Casey and Perle) supported, Department of Agriculture, Department of Commerce opposed it (Dobson,2005). Moreover, the European allies of the United States (France, West Germany, and United Kingdom) also opposed the use of stronger economic pressure against the Soviets (Dobson,2005).

The Soviets realized the geopolitical threat of falling oil prices as well and Russians were aware of this economic weapon even after the collapse of the Soviet Union: "There is a precedent of such joint action [on the oil market] that caused the collapse of the USSR. In 1985, the Kingdom has dramatically increased oil production from 2 million to 10 million barrels per day, dropping the price from 32 to 10 dollars per barrel" (Sudakov, 2014).

Nevertheless, the United States and Saudi Arabia never officially admitted that manipulation of oil prices was a deliberate means of economic warfare in the '80s against the Soviet Union. This is understandable, as similarly to military warfare, the details of key operations in economic warfare (or geoeconomics) are not made public, either, because this would pose a risk to the success of similar future operations.

Obviously, the Cold War conflicts between the United States and the Soviet Union were not limited to economic dimensions. The victory of the United States and the collapse of the Soviet Union was the result of political, diplomatic, military, intelligence and economic fights complex in nature. Nevertheless, it can be stated that economic warfare and persistently low oil prices caused major economic problems for the Soviet Union and these

1.The Soviet Union could not rely on the other major communist power, China, either, in the sharing of such burdens, as Sino-Soviet relations deteriorated by the '70s.

economic problems significantly contributed to the collapse of the Soviet system.[1]

It should be noted furthermore that economic competition during the Cold War strained the American economy as well: "As former Secretary of State Lawrence Eagleburger sagely observed in a 1989 speech, the United States, too, crossed the cold war finish line gasping for breath" (Tonelson,1994).

If, according to the statements above, our hypothesis is true, oil price manipulation in the 1980s was a deliberate geoeconomics weapon against the Soviet Union.

6.Outlook: Oil Price Manipulation After the Cold War

6-1. Falling Oil Prices in 2014-2016

In the post-Cold War period, the United States and its allies continues to assign a priority to economic warfare; in addition to the financial markets, they mainly focus on the oil market in their efforts to step up against either minor (North Korea, Venezuela) or major (Russia) geopolitical actors. While the restriction of access to the oil market is more simple and cheaper through economic sanctions (embargo, boycott) in relation to minor actors, this is not sufficiently viable in relation to Russia due to its weight on the oil market and in the geopolitical arena. Consequently, the manipulation of the global price of oil can be an option in the future as well.

The period following the 2008 global economic crisis shows several similarities to the 1970–80 period in the geopolitical arena and the oil market. Oil prices were again considerably high in the 2010–2013 period (over 100 USD). As a result, Russia's revenues, being a major oil exporter, significantly increased, leading to its intensified international geopolitical activity (Russian-Ukrainian conflict over Crimea, active military participation in the Syrian War), which violated the geopolitical interests of the United States once again; nevertheless, direct military action against Russia was not a realistic alternative this time either. Between 2014 and 2016 the oil prices began to fall from 110 USD to 40 USD. It would be worth to research, whether this oil price plunge was the result of pure economic processes, or was it a geoeconomic assault of the United States and its allies against Russia, with regard to the fact, that Russian military

1.Low oil prices in the '80s were also favourable to Americans in connection with Iran as well. Low oil prices weakened Iran's military and geopolitical potential, so—as a side-effect—Iran became a "victim" of the Soviet-American economic struggles.

budget is closely linked to oil price developments: when oil prices change by 1 %, the Russian military budget tends to change by an average of 0.4 % in the same direction (Glofak,2019:34).

Besides the similarities several differences can be observed between the 1980s and the 2014–2016 period, for example the influence of the United States on the Persian Gulf region has decreased since the Cold War (Mossalanejad,2019).

6-2. Optimal Oil Price for the United States

The question of the optimal oil price for the United States is in itself a complex issue that should be determined by the combined effects of numerous factors. It is necessary to take into account macroeconomic, domestic policy and geopolitical criteria as well.

Since recent decades, the United States has been continuously a net oil importer, overall low oil prices served the economic interests of the United States, unless other special interests overrode purely macroeconomic interests. Although the development of unconventional oil production technologies (shale oil extraction, fracking, and horizontal drilling) led to significant rise in American oil production (increasing by 125 % from 2010 to 2020), in the reviewed period the United States constantly remained a net oil importer, although the quantity of net import steadily and significantly declined during the decade.

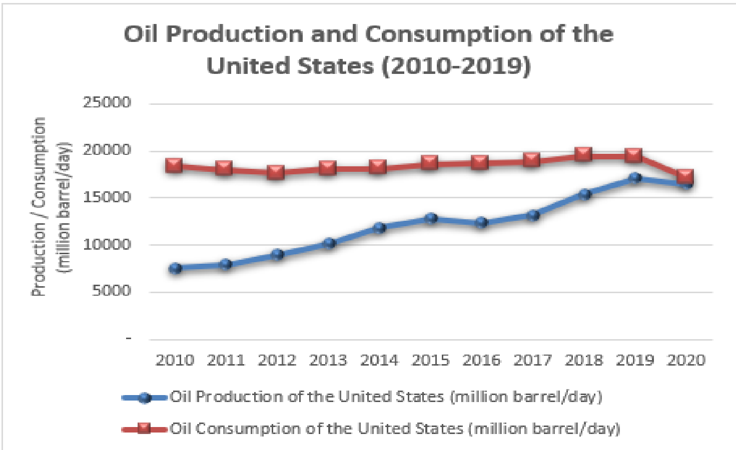

Figure (5): Oil Production and Consumption of the United States 2010-2019
(**Source** of data: British Petrol, figure: compiled by the authors)

So, in the 2010–2019 period, low oil prices served the macroeconomic interests of the United States, because low oil prices were beneficial for economic growth, fighting unemployment, inflation, and maintaining trade balance and living standards of voter citizens.

The American oil industry, however, is also important in terms of the economy and domestic policy. The importance of the American oil sector, its ability to provide jobs and political lobbying power increased in parallel with the development of new oil production technologies. The American oil industry was obviously interested in higher oil prices. Too low oil prices lead to diminishing profitability for large oil companies and bankruptcy for smaller ones.

When examining the question within a geopolitical context, optimal oil price for the United States can only be determined on the basis of complex considerations. While low oil prices were favourable for the United States in achieving its geopolitical objectives in relation to Russia, Iran or Venezuela, on the other hand they can have a negative effect in terms of geopolitical engagements towards China, because low oil prices are beneficial for the Chinese economy (as a net importer, China covers more than 70 % of its oil needs with imports, so in the era of geoeconomics, low oil prices can contribute to increasing China’s geopolitical weight) (British Petrol,2021). Ultimately, the consequences of geopolitical effects applicable to all geopolitical actors important for the United States, can reveal the concerns of the United States regarding oil price defined in geopolitical terms.

As a matter of fact, while the principal objective of the United States was to curb the Soviet Union’s geopolitical activity in the mid-1980s, holding back Russia’s geopolitical activity was less important in 2014–2016 as it would have required reducing oil prices. While the expansion of Soviet power in the Persian Gulf region in the 1980s could have contributed to strengthening communism on a global scale and even could decide the outcome of the Cold War to the advantage of the Soviets, the geopolitical activity of Russia posed a significantly lesser threat to the United States after 2014.

Nevertheless, it is important to stress that the United States (and its allies) do not have the potential to artificially reduce oil prices in any situation. To do this, several conditions must be present at the same time. Firstly, it is essential for oil prices to be at high levels. Secondly, it is also essential for America’s complex (economic, domestic policy and geopolitical) interests to be overall firmly geared toward low oil prices. Thirdly, it is also essential to be able to increase global oil supply (in excess of 10 %) through the Saudi–American alliance in the long term, in parallel with the given technological conditions in the oil industry and the given demand-supply trends on the oil market.

7.Conclusion

Economic warfare has gained particular relevance in recent decades in modern geopolitics. Among the methods of economic warfare, this article examined one of the ideal instruments: the manipulation of oil prices.

With excessive geopolitical activity by the Soviet Union in the 1970s-1980s, the United States and its allies (mainly Saudi Arabia) were able to generate a significant and long-term price decline in the oil market, which seriously weakened the Soviet economy and thereby considerably curbed the Soviet geopolitical and military potential, significantly enough to contribute to the defeat of the Soviet Union without the risk of direct armed conflict involving potential nuclear threat.

Such a geoeconomic offensive, however, is only possible if the combination of certain conditions exists. Firstly, it is essential for oil prices to be at high levels. Secondly, it is also essential for America's complex (economic, domestic policy and geopolitical) interests to be overall firmly geared toward low oil prices. Thirdly, it is also essential to be able to increase global supply (in excess of 10 %) through the Saudi–American alliance in the long term, in parallel with the given technological conditions in the oil industry and the given supply and demand trends on the oil market.

After the Cold War period if Russia's geopolitical manoeuvres should seriously violate American interests, Russia can expect the United States and its allies—assuming the existence of economic, technological, and political conditions—to launch a counter-offensive via the oil market (as well), where they can achieve a substantial and long-term decline in prices. Such a price decrease can in turn generate a negative effect on the entire Russian economy and thereby on its military budget. Beyond attacks on the oil market, the Americans and their allies are also expected to open additional geoeconomic front(s), placing additional burdens on the Russian economy (boycotts and embargos).

The modes of action explored in this article are not only applicable to forecasting geopolitical trends but can also be applied to forecast trends in oil prices. The combination of economic and geopolitical logic can trigger a cyclicality of sorts in global oil price trends: if oil prices are high in the long term, Russian military/geopolitical activity intensifies. In response, the United States and its allies—if they have the means—take steps to reduce the price of oil on the markets, resulting in weakening Russian geopolitical activity.

Importantly, if American oil production continues to increase at the pace it has in recent years, the United States may eventually become self-sufficient in oil production, and later become a net exporter. In this case, the economic interests of the United States will likely support higher global oil prices. Therefore, it will be less inclined to aim at pushing down the price of oil in the long term to achieve its geopolitical objectives against Russia, potentially increasing Russia's room for manoeuvring on Brzezinski's Grand Chessboard (Brzezinsky,2006).

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