

**Jerzy Zarzycki-Siek**

MA, Lazarski University  
ORCID: 0000-0001-8758-6654

## **AMERICA AND ENERGY DOMINATION PLAN - A NEW WAY OF REGIME CHANGE?**

### **Introduction**

In the next 25 years, energy consumption will double.<sup>1</sup> The growth of energy consumption is directly linked with economic development.<sup>2</sup> Although progress towards energy efficiency allows limiting those needs to a certain extent, the fact remains: there is no growth without a steady increase in energy supply. That is the reason why states tend to tightly control energy markets. Even countries embracing free-market capitalism, such as the United States, do control the foreign investments in this sector.<sup>3</sup> The reason is simple: if one would be able to capture a segment of the internal energy market, one would be able to directly shape

---

<sup>1</sup> U.S Energy Information Administration, “International Energy Outlook 2017”, 14.09.2017, [https://www.eia.gov/outlooks/ieo/pdf/0484\(2017\).pdf](https://www.eia.gov/outlooks/ieo/pdf/0484(2017).pdf) [accessed: 14.07.2018].

<sup>2</sup> D.I. Stern, “Economic Growth and Energy”, [in:] *Encyclopedia of Energy*, Vol. 2, eds. C.J. Cleveland, R.U. Ayres, Amsterdam 2004, <http://sterndavidi.com/Publications/Growth.pdf> [accessed: 14.07.2018].

<sup>3</sup> F. Wehrle, J. Pohl, *Investment Policies Related to National Security: A Survey of Country Practices*, OECD Working Papers on International Investment 2016 (2), p. 72, [https://www.oecd-ilibrary.org/finance-and-investment/investment-policies-related-to-national-security\\_5jlwrrf-038nx-en](https://www.oecd-ilibrary.org/finance-and-investment/investment-policies-related-to-national-security_5jlwrrf-038nx-en) [accessed: 14.07.2018].

the economy of the United States. This can be a powerful tool of influence over Washington's domestic politics and as a result – foreign policy as well.

Direct control over the market is not the only option, however. States typically protect themselves from unwanted elements that can be dangerous. But they cannot defend themselves against the lack of energy resources. The world distribution of energy resources creates vulnerabilities and dependencies. A state blessed with an abundance of strategic materials such as oil or gas can influence policies and domestic affairs of other actors of the international arena. This vulnerability is exploited most notably by countries that lack traditional dimensions of power or cannot use them in the current globalized world. Since the “current globalized world” is a by-product of the U.S. position as the only superpower, by design those countries are acting against the U.S. interests. States such as Russia, Iran or Venezuela are the most obvious examples of this. Revenues from oil and gas as well as the general dependency on hydrocarbons were used to fuel anti-American foreign policy goals.

However not only states that are local challengers to the U.S. interests used oil revenues to support their moves on the international arena. Countries that are formal allies of the U.S., such as Saudi Arabia also utilized a similar strategy against Washington – although not openly. By subsidizing other governments<sup>4</sup> Saudi Arabia was impacting the balance of powers in the Middle East. Oil revenues were also used as a soft policy tool – to influence Western politicians and public opinion.<sup>5</sup>

What Saudi Arabia and Russia have in common is not an anti-U.S. stance, but rather the way in which they adjusted to an American-dominated world while maintaining non-democratic regimes. The same oil revenues that allowed them to pursue a more robust foreign policy also made maintaining authoritarian rule possible. Contrary to appearances, the situation of those regimes is very fragile – they use redistribution of wealth as a way of controlling popular dissent and as a tool for creating alliances within the upper echelons of society. They buy loyalty and legitimacy. As long as they deliver on their redistribution promises they are able to pacify opposition since the opposition has a difficult time justifying its hostility towards the government. This leads to the marginalization of the dissenting voices and trough that – increased stability of the regime.

This is a unifying factor for a couple of countries – both U.S. allies and challengers to its position. All of them, however, will be potential victims of the new Washington energy policy that aims at utilizing the shale revolution to

---

<sup>4</sup> Center for International Communication, “Saudi Arabia’s Aid to the World Reaches Nearly \$33 Billion in 10 years”, 28.02.2017, <https://cic.org.sa/2018/02/saudi-arabias-aid-to-the-world-reaches-nearly-33-billion-in-10-years/> [accessed: 14.07.2018].

<sup>5</sup> S. Tisdall, “Saudi Arabia and the West: How a Cosy Relationship Turned Toxic”, *The Guardian*, 27.01.2015, <https://www.theguardian.com/world/2015/jan/27/saudi-arabia-and-the-west-how-cosy-relationship-turned-toxic> [accessed: 14.07.2018].

dominate the market of hydrocarbons. Although the shale revolution is equally impactful for gas and oil markets, the article will mostly be covering the question of oil.

The shale revolution is an umbrella term used to define the radical shifts in the oil and gas mining industry that unleashed new, untapped sources of those strategic resources. This was achieved thanks to the new mining techniques that allowed exploitation of reserves that were not previously reachable or that were not profitable – within rock formations known as shale. Now they can be extracted at a competitive price. Just like with traditional oil and gas reserves, shale is not distributed evenly around the world – some states have been blessed with more shale formations than others. The United States is among those with the biggest reserves. United States Geological Survey estimates them at around 4.2 trillion barrels in total<sup>6</sup> (estimates for other regions of the world do not exceed 250 billion; Saudi Arabia proved reserves are around 260 billion barrels<sup>7</sup>). Not only that, but the U.S. is the pioneer in technologies allowing their extraction. This allowed American companies to flood the markets with the shale oil, dropping its price between 2013 and 2015 from 110 to 30 dollars (in 2018 it stands at 70 dollars).<sup>8</sup> In 2018 U.S. was producing daily 9.3 million barrels of oil<sup>9</sup>, and Saudi Arabia responded to that by raising its target production to above 10 million per day.<sup>10</sup> Regardless, by 2022 the U.S. will become a net energy exporter.

This creates market pressures on oil-exporting countries that made their state budgets dependent on the oil revenues. Both OPEC countries and independent producers such as Russia are in a tough position, where they cannot use

---

<sup>6</sup> R.C. Johnson, T.J. Mercier, M.E. Brownfield, M.P. Pantea, J.G. Self, “Assessment of In-Place Oil Shale Resources of the Green River Formation, Piceance Basin, Western Colorado”, United States Geological Survey 2009, <https://pubs.usgs.gov/fs/2009/3012/pdf/FS09-3012.pdf>; R.C. Johnson, T.J. Mercier, M.E. Brownfield, “Assessment of In-Place Oil Shale Resources of the Green River Formation, Greater Green River Basin in Wyoming, Colorado, and Utah”, United States Geological Survey 2011, <https://pubs.usgs.gov/fs/2011/3063/pdf/FS11-3063.pdf>; R.C. Johnson, T.J. Mercier, M.E. Brownfield, J. G. Self, “Assessment of In-Place Oil Shale Resources of the Green River Formation, Uinta Basin, Utah and Colorado”, United States Geological Survey 2010, <https://pubs.usgs.gov/fs/2010/3010/pdf/FS10-3010.pdf> [accessed: 14.07.2018].

<sup>7</sup> Organization of the Petroleum Exporting Countries, “Saudi Arabia Facts and Figures”, [http://www.opec.org/opec\\_web/en/about\\_us/169.htm](http://www.opec.org/opec_web/en/about_us/169.htm) [accessed: 14.07.2018].

<sup>8</sup> Market Insider Crude Oil Data, <http://markets.businessinsider.com/commodities/oil-price?type=wti> [accessed: 14.07.2018].

<sup>9</sup> U.S. Energy Information Administration, “How Much of the Oil Produced in the United States is Consumed in the United States?”, <https://www.eia.gov/tools/faqs/faq.php?id=268&t=6>; T. DiChristopher, “US Will Be a Net Energy Exporter by 2022, Four Years Sooner Than Expected, Energy Department Says”, *CNBC*, 07.02.2018, <https://www.cnbc.com/2018/02/07/united-states-will-be-a-net-energy-exporter.html> [accessed: 14.07.2018].

<sup>10</sup> J. Blas, W. Kennedy, W. Mahdi, “Saudi Arabia Is Planning Record Crude Oil Production in July”, *Bloomberg*, 26.06.2018, <https://www.bloomberg.com/news/articles/2018-06-26/saudi-arabia-is-said-to-plan-record-crude-oil-production-in-july> [accessed: 14.07.2018].

traditional tools of price control to make their revenues stable. Typically a decrease in the daily oil production was enough to increase the price. However, in the case of shale oil and gas produced by the U.S., this strategy is out of the question because it will make shale reserves only more competitive and will facilitate their expansion. The only way to defeat this competition is to lower the prices so significantly that shale will cease to be profitable – it is, after all, a more capital-intensive method of extraction than traditional reserves. This, however, means that budgets of oil-revenue dependent countries will run on a deficit since they require the price of hydrocarbons to remain above a certain threshold, one that will not be achieved under these circumstances. In other words, oil regimes are in a lose-lose position where the only way to win with a competitor such as the U.S. is to destroy the very thing that they try to protect: high oil prices. And with this goes away their internal stability. As revenues shrink but spending remains fixed out of necessity, their freedom of action will decrease. And although they may ultimately win this race, this may be a Pyrrhic victory. American companies appear to be more resilient, competitive and profitable than previously thought, lowering their breakeven price since 2014 by almost 50%.<sup>11</sup> Even newer technologies make the breakeven price lower by an additional 50 to 90%, below the production costs of Saudi oil.<sup>12</sup> This leads to major changes in the composition of the U.S. economy, making it more competitive. Indeed thanks to the shale revolution on the gas market America already started to increase (although in a limited capacity) the share of the manufacturing sector in its economy. Lower energy prices allow companies to come back from China or other low-labour-cost states to the U.S.<sup>13</sup> If this can be repeated with oil, one can expect the furthering of this trend. Apart from that, the shale revolution lowered the American trade deficit by half between 2008 and 2013 alone due to the smaller import of hydrocarbons.<sup>14</sup> Even if energy will not be supplied only by the U.S. sources, lower energy prices will allow Washington to continue this trend. It is a rare situation where a country is in an “always-win” position.

Especially since in the long run oil-exporting countries like Saudi Arabia or Russia may face collapse regardless: a prolonged period of competition that drives prices below what is needed for their budgets to stay balanced will require

---

<sup>11</sup> Rystad Energy, “Permian Midland Review: Acreage High Grading and Breakeven Prices”, March 2017, <https://www.rystadenergy.com/newsevents/news/newsletters/UsArchive/shale-newsletter-march-2017> [accessed: 14.07.2018].

<sup>12</sup> M.P. Mills, *SHALE 2.0. Technology and the Coming Big-Data Revolution in America's Shale Oil Fields*, Energy Policy & Environment Report 2015 (16), [https://www.manhattan-institute.org/pdf/eper\\_16.pdf](https://www.manhattan-institute.org/pdf/eper_16.pdf) [accessed: 14.07.2018].

<sup>13</sup> O. Celasun, G. Di Bella, T. Mahedy, C. Papageorgiou, *The U.S. Manufacturing Recovery: Uptick or Renaissance?*, IMF Working Paper 2014 (28), <https://www.imf.org/external/pubs/ft/wp/2014/wp1428.pdf> [accessed: 14.07.2018].

<sup>14</sup> International Monetary Fund, *Legacies, Clouds, Uncertainties*, World Economic Outlook October 2014, p. 28, <http://www.imf.org/external/pubs/ft/weo/2014/02/> [accessed: 14.07.2018].

absorbing losses. This will lead to the use of money gathered in wealth funds as well as borrowing on financial markets. Oil exporting regimes, as already discussed, require oil and gas revenues to stay in power: spending is the key to pacify dissent. Decreasing spending, therefore, may not be an option, and borrowing money or using reserves may be preferable instead. However this is a short term solution, and ultimately they will have to make cuts somewhere. When faced with a dilemma – maintain global influences or social order – they will probably choose the latter. This means that in order to maintain stability they will limit their foreign ambitions. If they will do the reverse – they risk destabilization.

It is not impossible, that oil-exporting regimes will withstand attack from the shale oil, and will navigate through dangerous moments of depletion of their financial reserves. However, it does not seem likely that this will be a quick victory. Rather a prolonged match. And it may turn out that this was a win not worth the price: regimes will become internationally more passive, concentrated on internal situation, giving room for the U.S. policymakers to exploit. But regardless of what the regimes will do they still may be doomed.

Behind the shale revolution runs the electro-mobility revolution. Advancements in technologies of battery production are hailing the new era of electric-only transportation: cars, trucks, soon perhaps even airplanes and ships will be running on electricity from batteries. Global transformation of this kind is thought to be very possible in the upcoming two decades. This in combination with self-driving systems and sharing economy potentially can decimate global hydrocarbon needs.<sup>15</sup> But cars are merely the beginning – once the technology is scaled up, it will change the way equation of costs and profits works for the entire energy industry, making nuclear and renewables highly competitive vis a vis traditional sources of energy like oil, gas, and coal.<sup>16</sup> Energy will not have to be produced constantly and fed into the grid. Instead, it will be possible to store it for later use. Costs will drop across the board. Thus even if oil regimes will somehow survive competition with the shale revolution, they may realize that the world simply went ahead and they have been left behind: loosing revenues, influences and most importantly – becoming basket cases of instability. This would allow the U.S. to freely move into their regions of influence and intervene in their internal affairs if Washington chooses to do so. One can expect that the end result of this process will be a world with less amount of local powers opposing the U.S. For Washington this will be a better environment to deal with Chinese ambitions.

---

<sup>15</sup> J. Arbib, T. Seba, “Rethinking Transportation 2020–2030. The Disruption of Transportation and the Collapse of the Internal-Combustion Vehicle and Oil Industries. A RethinkX Sector Disruption Report May 2017”, [https://static1.squarespace.com/static/585c3439be65942f022bbf9b/t/59f279b3652dcaab9520fba6/1509063126843/RethinkX+Report\\_102517.pdf](https://static1.squarespace.com/static/585c3439be65942f022bbf9b/t/59f279b3652dcaab9520fba6/1509063126843/RethinkX+Report_102517.pdf) [accessed: 14.07.2018].

<sup>16</sup> J. Shankleman, H. Warren, “Solar Power Will Kill Coal Faster Than You Think”, Bloomberg, 15.06.2017, <https://www.bloomberg.com/news/articles/2017-06-15/solar-power-will-kill-coal-sooner-than-you-think> [accessed: 14.07.2018].

How does the plan of Energy Dominance fit into that? It is not creating the abovementioned scenario, but rather recognizes it as a possibility and works towards getting rid of barriers that may slow it down or stop it. Forces that created shale and electric revolutions are already unleashed. New technologies lowering prices of extraction are under way<sup>17</sup>, and the amount of viable oil and gas reserves is increasing with them. Corporations worldwide have been forced by American advancements in battery production to begin their own projects of a similar kind and prices of batteries are falling consistently.

Trump's administration, therefore, does not have to create anything. It has to merely avoid obstruction of the process. Energy Domination Plan concentrates on regulatory changes, allowing for easier drilling and search. Similar regulatory changes allow for the creation of new pipelines, especially the Keystone pipeline linking oil sands of Canada with the U.S. and global market. Canada is another country that enjoys the benefits of the shale revolution. Its reserves of unconventional oil are perhaps not as huge, but still impressive. Therefore "the plan" does not include anything strategic in mind, apart from building a gas supply chain to South Korea. The rest will happen on its own thanks to private enterprise and market forces.

To conclude, the energy Domination Plan is not a specific strategy, but rather a recognition of a set of circumstances that allows the U.S. to think about becoming a dominant player on the world energy market, creating pressures on key hydrocarbon suppliers. It is clearly meant to hurt their position and to revitalize Washington's stance in the global hierarchy. Therefore the correct way of viewing its purpose is not trough examination of the policy itself, but rather of probable consequences of trends that policy tries to capitalize on. Looking at historical examples of similar exploits and comparing them to the existing situation may allow one to see this more clearly.

### **How the East was won: the fall of USSR due to oil prices dependency**

In the '70s the United States was going through a period of weakness. This was due to a combination of various factors creating "the perfect storm": weak economy in "stagflation" mode caused by incorrect tax and monetary policy; failure of Vietnam war causing massive loss of resources as well as political instability at home; and finally rising oil prices caused by OPEC decision to introduce an embargo on states supporting Israel (the Yom Kippur war). At this time the United States already reached its (conventional) oil peak and extraction was on a decline, thus it became dependant on supply from abroad more than ever. The only

---

<sup>17</sup> D. Hambling, "Forget Fracking, Microwave Zaps Could Clean up the Oil Business", *New Scientist*, 12.08.2015, <https://www.newscientist.com/article/mg22730340-400-forget-fracking-microwave-zaps-could-clean-up-the-oil-business/> [accessed: 14.07.2018].

other major oil producer, Soviet Russia, remained the U.S. main rival. Rising oil prices hit the economy at the worst possible time, adding to the list of problems. As a result, the United States felt exhausted and overextended: with a failing economy, costs of the Vietnam war and lack of internal cohesion caused by those two factors it was unable to maintain high levels of engagement against the Soviet Union.

However, the United States is a highly resilient, elastic country due to the complexity and vigour of its economic landscape. Time of detente with USSR (that fortunately for the U.S. started just before the time of its weakness) was used to find new solutions for internal and external policy. Economic doctrines were changed from Keynesianism to monetarism; the U.S. forces were and pulled out of Vietnam, giving its army time to recuperate and reconfigure itself with the new technologies and tactics. Warming up towards China started by Nixon was continued. This allowed exploiting the Sino-Soviet split. After those adjustments in the 80's the United States was back in the game. Washington under Ronald Regan was pushing against USSR harder than ever, ultimately leading to the collapse of the communist block between 1989 and 1991.

Traditional wisdom explains the collapse of USSR as a combination of its internal weakness caused by the command “lunar” economy; imperial overstretch; detente between China and U.S.; costs of asymmetric war in Afghanistan; U.S. technological transition into information age; support for opposition movements in the eastern bloc by western powers, and subsequent military build-up started by Washington that forced Moscow to invest massive amounts of money into an arms race. This depleted available resources and made communist regimes very weak, shaky and unstable, which ultimately lead to the collapse of the communist block and abolishment of the iron curtain.

However, not often mentioned but nevertheless crucial part of this equation was the fact that OPEC countries ( mainly Saudi Arabia) increased oil supply causing prices to plummet.<sup>18</sup> Soviet Russia during that time was propping up its economy through oil revenues. Without them, it became increasingly difficult for its command economy to stay afloat. Moscow together with its satellites resorted to borrowing money from the West.<sup>19</sup> However, servicing the debt was consuming their trade revenues. Over time all of those factors combined allowed the United States to “defeat” USSR without firing a single bullet. Regime change happened on its own at minimal cost and minimal risk to the U.S., with the use of pro-western forces already in place in the communist countries. Just like OPEC intervention in the '70s allowed Russia to profit from higher oil prices; in the '80s

---

<sup>18</sup> S. Koepf, “Cheap Oil!”, *Time*, 14.04.1986, <http://content.time.com/time/print-out/0,8816,961087,00.html> [accessed: 14.07.2018].

<sup>19</sup> National Foreign Assessment Center, “Estimating Soviet and East European Hard Currency Debt”, 1980, <https://www.cia.gov/library/readingroom/docs/CIA-RDP08S01350R000100180002-6.pdf> [accessed: 14.07.2018].

falling prices meant doom for its empire. A combination of internal weaknesses, rigidity of the regime and application of outside pressure depleted its resources, leading to the collapse. The system was no longer capable of sustaining itself.

Both cases – that of U.S. slow down and USSR collapse – share similarities. Both powers were faced at different times with a similar set of circumstances that depleted their national resources. First of all, their economic model was insufficient for the then challenges: sluggish growth or depression, lack of prospects and difficulties to reform. Secondly, they were forced to fight interventionist wars while maintaining high levels of global engagement against their rival(s). Finally at a crucial time they were hit by problems with oil prices, making their economy unstable. And this, in turn, has caused internal problems: growing dissent and difficulty in maintaining social cohesion and order, translating into the lack of ability to act externally.

However, the main difference was in the fact that while USSR required certain oil price levels for its budget to remain viable, the U.S. did not. More importantly, America was more successful in searching and testing solutions to those problems. The crucial difference was in having a more elastic political and economic system. Its response to the challenges was faster. The Soviet regime, in contrast, did not tolerate any elasticity, the command economy could not change. The by-product of this was the fact that technological innovation was discouraged unless one was willing to do away with communism. But this was unthinkable because the political system was entangled with the economic one and motivated ideologically: any change would destroy the credibility and legitimacy of the entire structure. Thus resources of the USSR were slowly depleted by war and arms race, and soon the inherent imbalances of the command economy were no longer manageable. Moscow had to use revenues coming from hydrocarbons as a way of sustaining itself, creating crucial vulnerability. A sudden drop in oil prices decreased the range of possible internal and external action due to their prohibitive costs.

The consequence of that was lessening of control over dependent territories, client states and allies; which allowed the U.S. to successfully support local dissidents and opposition, slowly dismantling the communist bloc from within. Attempts at reform of the Soviet system predictably destroyed the legitimacy of the entire regime, speeding up the process of its decline. Financially weakened beyond repair, USSR was incapable of intervening to keep its satellites in line, not to mention subsidizing their equally dysfunctional economies. Suddenly, over the period of two years starting in 1989 with partially free elections in Poland, the entire communist bloc collapsed on itself and autocratic governments were replaced by democratic ones. Almost overnight they chose an alliance with the West and the U.S. in particular. Military intervention was unnecessary. Instead, the regime change happened on its own at minimal costs and zero risks to the U.S. position worldwide.



On the basis of this example one can summarize necessary elements of the regime change based on the exploitation of self-inflicted vulnerability:

1. A state is an autocratic regime.
2. The regime uses oil revenues to fuel its internal and external policies.
3. Regime stays in power by buying the support of its people and/or using financial resources to subdue dissent.
4. The regime uses oil revenues when prices are high to engage internationally in other countries.
5. Regime external policy is met with resistance, entangling it in conflicts, forcing it to intervene militarily, costs of intervention grow.
6. Prices of hydrocarbons drop, caused by competition on the market.
7. The regime has trouble managing its financial situation.
8. Foreign rival of the regime introduces new technologies changing the long-term balance of powers.
9. The regime fails to do so because of its rigidity.
10. Competitor pressures regime externally. This leads to its collapse due to the lack of resources to sustain itself because of overspending and overstretch.

### **Russia in 2014: a testbed for the strategy of regime change via energy dominance**

Russia after the collapse of the Soviet Union went through a period of visible power decline coupled with economic and social instability. This period led to the creation of a new, authoritarian regime under Vladimir Putin.

The consolidation of power by the new president was quick partially thanks to the spike in hydrocarbon revenues. Easy money allowed his subsequent governments to silence the dissent. The regime created a net of internal dependencies, a form of crony-capitalism, where influences, peace and stability were achieved through the division of profits coming from gas and oil. Corruption was an expected and desirable element of this system. Putin was successfully eliminating dangers to his power, such as oligarch Boris Berezovsky or former KGB agent Alexander Litvinenko, both killed on their exile in the UK. Using a combination of blackmail, the corrupt justice system and a promise of rewards Putin was able to keep various factions within Russian society in check. Other elements of his success were the semi-liberal economic policy (low taxation, simplified labour law) coupled with an increase of social security benefits. The decline of Russia's armed forces was stopped and arguably reversed by the mid-2000s. Around the same time, Moscow became more aggressive in its local sphere, opting, for instance, to go to war with Georgia in 2008. Despite the fact that the Russian army proved to be highly incompetent

and ill-prepared for the conflict<sup>20</sup>, it was a clear sign that the age of Moscow passiveness on the international stage has ended. All of that was paired with increasingly expansionist foreign policy, aiming at creation of a “multipolar world”, where power of the United States would be challenged by a combination of nascent regional powers, such as China, India, Brazil, and Germany, with Russia as crucial link allowing them to combine their efforts in ousting current hegemon from its position. In such an environment Russia would be in theory more successful in re-asserting itself globally, securing its interest and rebuilding sphere of influence.

However, the main focus of resurgent Russia was not on the muscle-bound policy of military intervention. The main target of Russia’s activity was the sphere of economy and political influence. It was trying to forge trade deals with selected partners, pacifying in this way their support for the American policies. Moscow was both selling and buying. Each transaction was geopolitically motivated and rarely Russia was engaging other countries purely out of monetary incentive. Access to its market was used as leverage in negotiations. Thanks to this approach the country under Putin’s leadership was able to convince most of the western-European states of the necessity of the regime’s existence for the maintenance of global order.

Russia’s power growth seemed to be inevitable up until 2014, when during the Ukrainian crisis it decided to intervene militarily, taking control over the Crimean Peninsula and supporting – first indirectly, later with the full force of its army – separatists in Donbas as well as all around the country. In response to that, the United States decided to react rather softly – by using a combination of selective sanctions and convincing its allies to do the same.<sup>21</sup> But more importantly, Washington increased production of hydrocarbons leading to the collapse of their price.<sup>22</sup>

Sanctions were targeting several key industries, such as access to credit card systems, financial markets, telecommunication (mobile phones), oil and gas extraction technologies. Those selective sanctions were not aimed at isolating the Russian economy – it was deemed perhaps unpractical and/or impossible<sup>23</sup> due to the sheer size of the country. Sanctions were rather designed to specifically make key Russian industries inoperative in the long run, hurt their financial

---

<sup>20</sup> C. Vendil Pallin, F. Westerlund, “Russia’s War in Georgia: Lessons and Consequences”, *Small Wars & Insurgencies* 2009, Vol. 20, No. 2, pp. 400–424. doi: 10.1080/09592310902975539.

<sup>21</sup> E.H. Christie, “Sanctions After Crimea: Have they Worked?”, *NATO Review*, 13.07.2015, <https://www.nato.int/docu/review/2015/russia/sanctions-after-crimea-have-they-worked/EN/index.htm> [accessed: 14.07.2018].

<sup>22</sup> E.L., “Why the Oil Price is Falling”, *The Economist*, 8.12.2014, <https://www.economist.com/the-economist-explains/2014/12/08/why-the-oil-price-is-falling> [accessed: 14.07.2018].

<sup>23</sup> G. Friedman, “The U.S. Opts for Ineffective Sanctions on Russia”, *Stratfor*, 29.04.2014, <https://worldview.stratfor.com/article/us-opts-ineffective-sanctions-russia> [accessed: 14.07.2018].

viability, hit military modernization efforts and limit Russia's financial stability. Most effective however was a drop in oil prices caused by an increase in supply by American companies, reaping rewards of years of investment in shale technology. As a result in 2015, the financial situation of Russia was dire. Inflation reached 15%, the budget had a deficit of 2.4% and a year later 3.4%, economic growth was negative -3.3%, the recession lasted till 2017.<sup>24</sup> Moscow reacted by increasing tensions on Ukraine, Baltic countries, Nordic countries, and Japan. Russia opted for numerous military demonstrations of strength aimed at presenting itself as unpredictable and dangerous. It was an intimidation tactic. Trying to prepare for all possible scenarios including an open war, Moscow also sped up its military modernization process, increasing the budget by 5 billion dollars to 64 billion. It also began showing new equipment on parades.<sup>25</sup> Additionally, Putin made the decision to commit Russian forces in the Syrian conflict in a bid to force Washington to negotiate the status of Crimea and Donbas. This, however, was prohibitively costly. Because of sanctions Russia was practically cut off from the financial markets and could not sustain expenses by indebting itself. Additionally, it was forced to prop rouble up, leading to a drop in the foreign exchange reserves from 540 to 360 billion till 2015.<sup>26</sup> Rising tensions in 2015 were met with a rather reserved response from the United States that decided to commit more resources to NATO eastern flank on the summit in Wales, 2014. However, the NATO presence remained rather symbolic. More importantly, Kyiv was supported in numerous ways, mostly financially, allowing a country to resist inertia forces that were collapsing its economy and destabilizing social landscape. Military support was not granted, but the United States have begun to organize local containment, utilizing Baltic states, Sweden, Poland, and Romania.

Contrary to expectations, this very modest approach proved too much for Russia's finances. Although Crimea remained under its control, annexed; and Donbas situation is nowhere near to be solved; Moscow is exhausted. In 2016 in order to pay for its military, it introduced a 10% cut in social spending.<sup>27</sup> Despite that in the next budget year, the military funds were cut by 20%.<sup>28</sup> One can speculate that this was due to the necessity of maintaining social order. Moscow experienced an economic crisis, that forced it to re-think its geopolitical priorities

---

<sup>24</sup> Trading Economics, Russia GDP Annual Growth Rate, <https://tradingeconomics.com/russia/gdp-growth-annual> [accessed: 14.07.2018].

<sup>25</sup> "Russia Stages Massive WW2 Parade Despite Western Boycott", *BBC*, 5.09.2015, <https://www.bbc.com/news/world-europe-32668511> [accessed: 14.07.2018].

<sup>26</sup> Trading Economics, Russia Foreign Exchange Reserves, <https://tradingeconomics.com/russia/foreign-exchange-reserves> [accessed: 14.07.2018].

<sup>27</sup> "Russia to Cut Social Spending in 2016", *Russia Today*, 14.01.2016, <https://www.rt.com/business/328915-russia-social-spending-2016/> [accessed: 14.07.2018].

<sup>28</sup> D. Dickson, J. Stubbs, "Struggling Russia Cuts Military Spending – and It Could Weaken Its Forces Worldwide", *Business Insider*, 2.05.2018, <http://www.businessinsider.com/struggling-russia-cuts-military-spending-could-weaken-its-forces-2018-5?IR=T> [accessed: 14.07.2018].

and refocus on maintaining internal stability. Entanglement in Syria and Ukraine did not bring any particular benefits, and Russia scaled-down tensions.

This reversal would not be possible if not for the falling oil prices. A new surge in shale oil supply forced prices below the levels required for Russia's budget to stay balanced. Selective sanctions did not achieve that – they merely added to the pressure, it was oil prices that did the job. As a result Russian foreign policy changed, decreasing in intensity. Washington, however, did not use this opportunity to get rid of Putin. But depleting the Russian financial reserves created an environment for concessions on Moscow's part in the future.

Russia is an excellent case study of how America, through the domination of hydrocarbon markets can influence the behaviour and policies of oil-export dependent countries with authoritarian regimes in charge. Without using military means Washington was able to reverse the course of Moscow's actions through a combination of selective pressure and oil supply increase.

### **Saudi Arabia: the next victim?**

Saudi Arabia is one of the oldest allies of the United States. Relations between them date back to 1933 when American companies helped the Kingdom to create its oil industry. Trough Cold War the United States despite its pro-Israeli policies remained a major ally to Riyadh, allowing it to create a net of its own international institutions and influences while securing it militarily. However, the country is not entirely aligned with the U.S. interests. In fact, many of its actions are undermining Washington's position.

Saudi Arabia is wealthy due to its long-standing dominance in the global oil market; and is a major influencer of the religion of Islam thanks to the financing of mosques around the world – Saudi Arabia supports radical religious movements.<sup>29</sup>

After the events of 9/11, it became increasingly obvious that Saudi Arabia is simply exporting the problem of its extremism abroad. The reason why this is the case has less to do with the Kingdom's ambitions as a unifier of the Muslim world; and more with the fact that its internal stability is based on shaky ideological grounds. Saudi Arabia was founded on the alliance between tribal leaders and Wahhabi priests. Religion was used as a tool for unification. In subsequent decades the role of clerics did not diminish. They enjoy unofficial autonomy and are generally supportive of Kingdom policies. The problem, however,

---

<sup>29</sup> "Saudi Arabia Has 'Clear Link' to UK Extremism, Report Says", *BBC*, 5.07.2017, <https://www.bbc.com/news/uk-politics-40496778>; Directorate-General for External Policies, Policy Department, *Salafist/Wahhabite Financial Support to Educational, Social and Religious Institutions*, European Union 2013, [http://www.europarl.europa.eu/RegData/etudes/etudes/join/2013/457136/EXPO-AFET\\_ET\(2013\)457136\\_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/etudes/join/2013/457136/EXPO-AFET_ET(2013)457136_EN.pdf) [accessed: 14.07.2018].

is in fact that necessities of the modern world are in constant clash with the Wahhabi fundamentalist approach, yet ruling elites require acceptance of the religious caste. In order to avoid internal conflict, Saudi kings decided to channel religiously motivated dissent outside, changing it into the tool of foreign policy. Thanks to revenues from the oil they were able to significantly change the face of Islam around the globe. Today Wahhabi version of Islam pushed-out other interpretations. The side-effect of this is jihadist terrorism. The fact that Osama Bin Laden, responsible for the creation of Al-Qaeda terrorist organization that conducted the 9/11 attacks on the United States in 2001, was one of the Saudi princes is merely confirmation of a broader pattern.

Regionally Saudi Arabia is involved in numerous schemes that are a potential danger to Washington grand strategy. The general aim of this strategy is to dominate maritime trade routes and use control of them as a leverage in the creation of favourable rules of trade. In order to be able to do this and avoid isolation from the world markets the United States imperative is not to allow local powers to consolidate. Otherwise, those powers would be in a position to limit U.S. access to markets. Therefore each nascent power needs to be weakened, preferably through the support of its rivals. At the same time, the U.S. requires maintenance of global peace without which trade is impossible. This grand strategy has been based on the ideas of Alfred Thayer Mahan<sup>30</sup>, Nicholas. J. Spykman.<sup>31</sup> Their different interpretations have been adopted throughout the past century.

A unified Middle East, dominated by Saudi Arabia under Riyadh's lead is therefore not a preferable outcome for the United States. To avoid such scenario Washington was traditionally supporting various rivaling regional powers, like Israel or Turkey. However, only Iran makes Riyadh truly nervous – both countries are locked in a competition, spiced up by their religious differences. One of the reasons why the United States was so eager to stop Teheran nuclear ambitions was to prevent Saudi Arabia from going nuclear in response.<sup>32</sup> Proliferation of nuclear weaponry is not in U.S. interest since it weakens the importance of its own arsenal and makes a given country practically impervious to military action. It is believed that Saudis have paid for the Pakistani nuclear program, and in theory, they can obtain Islamabad's bombs very quickly.<sup>33</sup> The vision of the Kingdom not only as an oil state and ideological epicenter of radical Islam

---

<sup>30</sup> A.T. Mahan, *The Influence of Sea Power upon History, 1660–1783*, New York 1987.

<sup>31</sup> N.J. Spykman, H.R. Nicholl, *The Geography of the Peace*, New York 1944.

<sup>32</sup> P. Wintour, "Saudi Crown Prince Warns It Will Build Nuclear Bomb if Tehran Does the Same", *The Guardian*, 15.03.2018, <https://www.theguardian.com/world/2018/mar/15/saudi-arabia-iran-nuclear-bomb-threat-mohammed-bin-salman> [accessed: 14.07.2018].

<sup>33</sup> J. Stone, "Saudi Arabia Says It Won't Rule out Building Nuclear Weapons", *Independent*, 27.03.2015, <https://www.independent.co.uk/news/world/middle-east/saudi-arabia-says-it-wont-rule-out-building-nuclear-weapons-10139229.html>; M. Urban, "Saudi Nuclear Weapons 'On Order' from Pakistan", *BBC*, 6.11.2013, <https://www.bbc.co.uk/news/world-middle-east-24823846> [accessed: 14.07.2018].

but also a power equipped with nuclear weapons is not appealing to the United States. The logical thing to do would be to lock powerful states of the Middle East in a balance-of-powers style tug-of-war so that they will be forced to waste their resources on keeping their rivals in check. In such an environment the United States is in a comfortable position of the off-shore balancer, supporting any side depending on the situation. But this in the environment of the Middle East proved to be almost impossible. Firstly, because it would require normalization of relations with Iran. And this would risk arms race with Saudis, leading perhaps even to a local war. And secondly – due to the dependency of Washington on the stability of oil prices.

Riyadh is capable of wrecking the international oil market, and in 70's it already shown that it can do it. In the event of military conflict, the Gulf States are able also to use force to stop the flow of oil. The only option left was careful manoeuvring between various local factions, forcing Riyadh to spent its resources on maintaining the status quo. A good example of that is Washington's support for Riyadh's involvement in Yemeni civil war.<sup>34</sup> In order to prevent destabilization that was favouring Iran-backed groups, Saudi Arabia was forced to intervene militarily. This proved to be very costly, depleting Kingdom's budget over time.<sup>35</sup>

For the United States the Middle East is an unsolvable puzzle: it has too many pieces locked in a dynamic strife, and dominance of any piece has negative consequences for American interests worldwide. The margin of error is zero. However, once oil and gas are removed from the equation, the situation becomes much simpler since virtually all participants of this deadlock are dependent on revenues from hydrocarbons. Once prices drop the inherent contradictions in local regimes will be visible. This is especially true for Saudi Arabia.

Saudi Arabia is not a “proper country”, because it has no nation to rule over. Instead, it is a state based on a peculiar form of a social contract. If the regime cannot hold its part of the bargain, it loses legitimacy and loyalty of its subjects. In that sense, it is closer to feudal rule than to the modern government. The Kingdom has been created by allying various groups of tribes, families of importance and clerics; each of them received a set of specific privileges within state institutions, for which Saudis are paying. If the ruling family runs out of money it cannot be sure of their loyalty. And given the way how country's wealth is redistributed – it is now a likely scenario.

---

<sup>34</sup> J. Crowe, “Report: U.S. Forces More Involved in Yemeni Civil War than Pentagon Admitted”, *National Review*, 3.05.2018, <https://www.nationalreview.com/news/yemen-us-involvement-more-pentagon-acknowledges/> [accessed: 14.07.2018].

<sup>35</sup> A. Torchia, “Cost no Barrier to Saudi Arabia's Yemen Intervention”, Reuters, 31.03.2015, <https://www.reuters.com/article/us-yemen-security-saudi-cost/cost-no-barrier-to-saudi-arabias-yemen-intervention-idUSKBN0MR1KZ20150331> [accessed: 14.07.2018].

Firstly, Riyadh's economy is dependent on foreign labour. Its population cannot support complex modern industry and services. Saudi Arabia gets employees from Asian and western states. Depending on estimates between 33%<sup>36</sup> and 37%<sup>37</sup> of its population is foreign-born, dominating the labour market to the absurd degree. In 2016 83% of workers in private companies were foreigners; in the case of government jobs, this number was only slightly less appalling: 60%.<sup>38</sup> Most of the jobs performed by foreigners are low-skilled. Only 1/3 of the working-age population of Saudi Arabia works or actively seeks employment<sup>39</sup>, though official statistics claim that unemployment is about 11%. Kingdom welfare policies are not helping, deterring from work. Atop of numerous subsidies, a generous handout system exists mixed with high wages for government jobs. In the past, this combination was used to get rid of dissent.<sup>40</sup> This model is well known as the "gulf rentier state".<sup>41</sup> The entire budget for 2018 amounts to 261 billion dollars. Just to give an indication of the scale of social spending one can look at the recent program: half of the population qualified and the monthly costs of just this social scheme amounted to half of a billion dollars.<sup>42</sup> The state pays for all of this thanks to hydrocarbons: most of the population is exempt from taxation.<sup>43</sup> To make matters worse economy is completely dominated by one sector: oil. 50% of its GDP is created there, and between 70 to even 90% of

---

<sup>36</sup> "KSA Population Is 30.8m; 33% Expats", *Arab News*, 31.01.2015, <http://www.arab-news.com/featured/news/697371> [accessed: 14.07.2018].

<sup>37</sup> Central Intelligence Agency, *The World Factbook*. Saudi Arabia, <https://www.cia.gov/library/publications/the-world-factbook/geos/sa.html> [accessed: 14.07.2018].

<sup>38</sup> Ministry of Labor and Social Development Kingdom of Saudi Arabia, *Saudi Arabia Labor Market Report 2016*, July 2016, <https://irp-cdn.multiscreensite.com/f00f1f0/files/uploaded/G20%20Labor%20Market%20Report%202016%20-%20Final%20-%20Low%20res.pdf>; International Monetary Fund, *Labor Market Reforms to Boost Employment and Productivity in the GCC*, Gulf Cooperation Council, 5.10.2013, <https://www.imf.org/external/np/pp/eng/2013/100513.pdf> [accessed: 14.07.2018].

<sup>39</sup> A. McDowall, "Saudi Arabia Doubles Private Sector Jobs In 30-month Period", *Al Arabiya*, 19.01.2014, <http://english.alarabiya.net/en/business/2014/01/20/Saudi-Arabiya-doubles-number-of-citizens-in-private-sector-jobs.html> [accessed: 14.07.2018].

<sup>40</sup> C. Hodgson, "The Fragile Balance Between Saudi Arabia's Ruling Class and Its People is 'Unsustainable'", *Business Insider*, 16.11.2017, <http://www.businessinsider.com/saudi-arabia-social-contract-unsustainable-2017-11?IR=T> [accessed: 14.07.2018].

<sup>41</sup> H. Beblawi, G. Luciani, *The Rentier State*, London–New York 2016; M. Gray, *A Theory of "Late Rentierism" in the Arab States of the Gulf*, Occasional Paper 2011 (7), <https://repository.library.georgetown.edu/bitstream/handle/10822/558291/CIRSOccasionalPaper7MatthewGray2011.pdf> [accessed: 14.07.2018].

<sup>42</sup> "Saudi Arabia Pays \$533mn to Half the Population in New Welfare System", *Russia Today*, 21.12.2017, <https://www.rt.com/newsline/413880-saudi-arabia-welfare-system/> [accessed: 14.07.2018].

<sup>43</sup> International Monetary Fund, *Diversifying Government Revenue in the GCC: Next Steps*, Gulf Cooperation Council, 26.10.2016, <https://www.imf.org/external/np/pp/eng/2016/102616.pdf> [accessed: 14.07.2018].

trade revenues depend on it.<sup>44</sup> Total revenues of budget dependant on oil reach up to 70–80%.<sup>45</sup> Growing costs of welfare state atop of falling oil prices have become subject of concern for the regime.

There is a general feeling that drastic changes are necessary. However there are no plans for creating the modern economy, instead, all ideas revolve around maintaining the rentier state.

One of the ideas is to re-create the dynamics of other Gulf countries, like Qatar. Those city-states build infrastructure and institutions to attract world companies from markets like finances or transport, learning how to compete in those fields. This allows to slowly move away from oil and gas. But Saudi Arabia's population is too big. This did not deter Saudis from trying, however. Their plan is to create a city, or rather a net of cities, where companies and inventors from all around the world would enjoy high levels of freedom, low taxes, and luxurious infrastructure in exchange for access to fruits of their labour. At the same time foreigners would be isolated from the general population, so that religious caste would be appeased. Many such multi-billion dollar projects were initiated, but not finished. For instance Jeddah Economic City (20 billion), or King Abdullah Economic City (100 billion). Till today it is not finished, a drain on Kingdoms budget. Saudis are determined on this path and recently announced another city of this nature on a much bigger scale: NEOM.<sup>46</sup> Total costs of this one hover around 500 billion. However, it is unclear how such projects can save the country of 20 million unemployed.

The newest idea is to invest in a massive Vision Fund, created by SoftBank.<sup>47</sup> SoftBank hopes to invest in emerging, disruptive technologies such as robotics, AI, genetic engineering. Kingdom invested 45 billion in a 100 billion dollar fund. But the necessity of maintaining a generous welfare state, paying for foreign workers, intervention in local wars and buying favours from other Arab states in addition to investing in the fund and creating two city projects proved to be too much for the Kingdom's finances in an environment of low oil prices. IMF estimated in 2015, that at the then rate – Saudi Arabia will run

---

<sup>44</sup> Organization of the Petroleum Exporting Countries, *op. cit.*

<sup>45</sup> A. Feteha, V. Nereim, "Saudi Arabia's Safety-Net Spending Wipes Out New Tax Gains", Bloomberg, 9.05.2018, <https://www.bloomberg.com/news/articles/2018-05-09/saudi-arabia-s-safety-net-spending-wipes-out-new-tax-gains> [accessed: 14.07.2018].

<sup>46</sup> A. Shahine, G. Carey, V. Nereim, "Saudi Arabia Just Announced Plans to Build a Mega City That Will Cost \$500 Billion", Bloomberg, 24.10.2017, <https://www.bloomberg.com/news/articles/2017-10-24/saudi-arabia-to-build-new-mega-city-on-country-s-north-coast> [accessed: 14.07.2018].

<sup>47</sup> K. Benner, "Masayoshi Son's Grand Plan for SoftBank's \$100 Billion Vision Fund", *The New York Times*, 10.10.2017, <https://www.nytimes.com/2017/10/10/technology/masayoshi-son-softbank-vision-fund.html>; R. Molla, "This is Where SoftBank's \$98 Billion Vision Fund Has Invested so Far", *Recode*, 7.12.2017, <https://www.recode.net/2017/12/7/16747706/where-has-softbank-vision-fund-invested> [accessed: 14.07.2018].



out of reserves within five years.<sup>48</sup> As a result, in order to get stakes in the Singularity Fund and to create NEOM, for the first time in history Saudis were forced to sell shares in their state-owned oil company, Saudi Aramco.<sup>49</sup> Despite that in 2018 the new budget of the Kingdom has an 8.9% deficit, and it is bigger than ever. Spending across the board increased, trying to appease various interest groups, while regime hectically searches for sources of income: slashing fuel subsidies, limiting privileges of government workers, introducing new taxes.<sup>50</sup> But essentially all newfound revenues have been consumed by an increase in social spending and in wages. Attempts at manoeuvring between contradictory requirements did not bring positive results. Kingdom got into a slight recession.

Saudi Arabia tries to modernize and diversify the economy. However, by doing so it risks destabilization. Social reform such as allowing women to drive<sup>51</sup> or to participate in selected sports events<sup>52</sup> are not changing anything of significance while aggravating influential religious groups. At the same time, Kingdom's unofficial succession rules have been broken<sup>53</sup> and dissent among elites due to this has been brutally eradicated through an unprecedented anti-corruption campaign, allowing the new heir to the throne to consolidate power despite opposition.<sup>54</sup> It is not unreasonable to think that the dissent reaches deeper than that, and this move was supposed to merely intimidate the rest of potential conspirators.

---

<sup>48</sup> International Monetary Fund, *Middle East and Central Asia, Regional Economic Outlook 2015*, <http://www.imf.org/external/pubs/ft/reo/2015/mcd/eng/pdf/menap1015.pdf> [accessed: 14.07.2018].

<sup>49</sup> T. DiChristopher, "Saudi Aramco's IPO, the World's Largest Ever, Is 'On Track' for 2018, CEO Amin Nasser Says", *CNBC*, 23.10.2017, <https://www.cnn.com/2017/10/23/saudi-aramco-public-offering-is-on-track-for-2018-ceo-amin-nasser.html> [accessed: 14.07.2018].

<sup>50</sup> A. Feteha, "Key Figures in Saudi Arabia's 2018 Budget, 2017 Fiscal Data", *Bloomberg*, 19.12.2017, <https://www.bloomberg.com/news/articles/2017-12-19/key-figures-in-saudi-arabia-s-2018-budget-2017-fiscal-data>; E.R. Wald, "Saudi Arabia's 2018 Budget Is The Country's Largest Ever", *Forbes*, 19.12.2017, <https://www.forbes.com/sites/ellenwald/2017/12/19/saudi-arabias-2018-budget-is-the-countrys-largest-ever/#71026c7c5e29> [accessed: 14.07.2018].

<sup>51</sup> B. Hubbard, "Saudi Arabia Agrees to Let Women Drive", *The New York Times*, 26.10.2017, <https://www.nytimes.com/2017/09/26/world/middleeast/saudi-arabia-women-drive.html> [accessed: 14.07.2018].

<sup>52</sup> "Saudi Arabia to Let Women Enter Sports Stadiums in 2018", *Reuters*, 30.10.2017, <https://www.reuters.com/article/us-saudi-women-stadiums/saudi-arabia-to-let-women-enter-sports-stadiums-in-2018-idUSKBN1CZ0LQ> [accessed: 14.07.2018].

<sup>53</sup> B. Hubbard, "Saudi King Rewrites Succession, Replacing Heir With Son, 31", *The New York Times*, 21.06.2017, <https://www.nytimes.com/2017/06/21/world/middleeast/saudi-arabia-crown-prince-mohammed-bin-salman.html> [accessed: 14.07.2018].

<sup>54</sup> M. Chulov, "Royal Purge Sends Shockwaves Through Saudi Arabia's Elites", *The Guardian*, 5.11.2017, <https://www.theguardian.com/world/2017/nov/05/royal-purge-shockwaves-saudi-arabia-elites-mohammed-bin-salman> [accessed: 14.07.2018].

Even if gamble on disruptive technologies amidst political turmoil will succeed it will take decades for the Kingdom to see the results. If the situation of lower oil prices will continue, the Kingdom may face internal instability of unparalleled proportions. It is not clear whether the risk of investing in new, uncertain technologies will be able to save the regime before it is too late.

## **Conclusions**

The Energy Domination Plan is a facilitator of what may come in the next decade. The United States has still tremendous potential for innovation and has the capability to re-imagine itself in the face of difficulties. The creation of new technologies allows it not to solve structural problems, but to jump over them. Becoming the number one hydrocarbon producer is an example of this vitality. It will allow the U.S. to change the geopolitics of many regions. Lower hydrocarbon prices will have a negative impact on regimes exporting them. Weakening those regimes and making them more restricted in their range of actions will at the same time increase this range for Washington. In Europe, the fact that American gas and oil will be sold allows the U.S. to change the behaviour of many eastern and western European states, de-coupling their policies from the influences of Moscow. Similarly ability to sell gas through the South Korean hub will open the possibility of dominating Asian markets, tying their governments with Washington in new ways. As for the Gulf States, mainly Saudi Arabia – their existence depends wholly on the sale of hydrocarbons. Once this pillar is taken away, their regimes cannot function. The United States will indirectly solve the Middle Eastern conundrum – without hydrocarbon revenues countries of this region will be more than ever dependent on the off-shore balancer. Both Iran and in particular Saudi Arabia will become much weaker. Washington will be able to shift its support between local powers in accordance with the needs of the moment.

Regardless of that oil-dependent regimes will become more preoccupied with maintaining internal stability, becoming fragile and susceptible to external influences. The United States will be in a unique position to change their regimes – if it chooses so.

And even if countries like Russia or Saudi Arabia will survive in their current form, the upcoming electric revolution will sweep away the basis of their power: oil and gas will become things of the past. While oil-regimes will be struggling to fight the competition coming from the U.S., the very market they want to dominate will shrink more and more, leaving them with less to work with while giving Washington more room to manoeuvre.

## References

- Arbib J., Seba T., “Rethinking Transportation 2020–2030. The Disruption of Transportation and the Collapse of the Internal-Combustion Vehicle and Oil Industries. A RethinkX Sector Disruption Report May 2017”, [https://static1.squarespace.com/static/585c3439be65942f022bbf9b/t/59f279b3652deaab9520fba6/1509063126843/RethinkX+Report\\_102517.pdf](https://static1.squarespace.com/static/585c3439be65942f022bbf9b/t/59f279b3652deaab9520fba6/1509063126843/RethinkX+Report_102517.pdf) [accessed: 14.07.2018].
- Beblawi H., Luciani G., *The Rentier State*, London–New York 2016.
- Benner K., “Masayoshi Son’s Grand Plan for SoftBank’s \$100 Billion Vision Fund”, *The New York Times*, 10.10.2017, <https://www.nytimes.com/2017/10/10/technology/masayoshi-son-softbank-vision-fund.html> [accessed: 14.07.2018].
- Blas J., Kennedy W., Mahdi W., “Saudi Arabia Is Planning Record Crude Oil Production in July”, Bloomberg, 26.06.2018, <https://www.bloomberg.com/news/articles/2018-06-26/saudi-arabia-is-said-to-plan-record-crude-oil-production-in-july> [accessed: 14.07.2018].
- Celasun O., Di Bella G., Mahedy T., Papageorgiou C., *The U.S. Manufacturing Recovery: Uptick or Renaissance?*, IMF Working Paper 2014 (28), <https://www.imf.org/external/pubs/ft/wp/2014/wp1428.pdf> [accessed: 14.07.2018].
- Center for International Communication, “Saudi Arabia’s Aid to the World Reaches Nearly \$33 Billion in 10 Years”, 28.02.2017, <https://cic.org.sa/2018/02/saudi-arabias-aid-to-the-world-reaches-nearly-33-billion-in-10-years/> [accessed: 14.07.2018].
- Central Intelligence Agency, *The World Factbook*. Saudi Arabia, <https://www.cia.gov/library/publications/the-world-factbook/geos/sa.html> [accessed: 14.07.2018].
- Christie E.H., “Sanctions After Crimea: Have they Worked?”, *NATO Review*, 13.07.2015, <https://www.nato.int/docu/review/2015/russia/sanctions-after-crimea-have-they-worked/EN/index.htm> [accessed: 14.07.2018].
- Chulov M., “Royal Purge Sends Shockwaves Through Saudi Arabia’s Elites”, *The Guardian*, 5.11.2017, <https://www.theguardian.com/world/2017/nov/05/royal-purge-shockwaves-saudi-arabia-elites-mohammed-bin-salman> [accessed: 14.07.2018].
- Crowe J., “Report: U.S. Forces More Involved in Yemeni Civil War than Pentagon Admitted”, *National Review*, 3.05.2018, <https://www.nationalreview.com/news/yemen-us-involvement-more-pentagon-acknowledges/> [accessed: 14.07.2018].
- DiChristopher T., “Saudi Aramco’s IPO, the World’s Largest Ever, Is ‘On Track’ for 2018, CEO Amin Nasser Says”, *CNBC*, 23.10.2017, <https://www.cnbc.com/2017/10/23/saudi-aramco-public-offering-is-on-track-for-2018-ceo-amin-nasser.html> [accessed: 14.07.2018].
- DiChristopher T., “US Will Be a Net Energy Exporter by 2022, Four Years Sooner Than Expected, Energy Department Says”, *CNBC*, 07.02.2018, <https://www.cnbc.com/2018/02/07/united-states-will-be-a-net-energy-exporter.html> [accessed: 14.07.2018].
- Dickson D., Stubbs J., “Struggling Russia Cuts Military Spending – and It Could Weaken Its Forces Worldwide”, *Business Insider*, 2.05.2018, <http://www.businessinsider.com/struggling-russia-cuts-military-spending-could-weaken-its-forces-2018-5?IR=T> [accessed: 14.07.2018].
- Directorate-General for External Policies, Policy Department, *Salafist/Wahhabite Financial Support to Educational, Social and Religious Institutions*, European Union 2013,

- [http://www.europarl.europa.eu/RegData/etudes/etudes/join/2013/457136/EXPO-AFET\\_ET\(2013\)457136\\_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/etudes/join/2013/457136/EXPO-AFET_ET(2013)457136_EN.pdf) [accessed: 14.07.2018].
- E.L., “Why the Oil Price is Falling”, *The Economist*, 8.12.2014, <https://www.economist.com/the-economist-explains/2014/12/08/why-the-oil-price-is-falling> [accessed: 14.07.2018].
- Feteha A., “Key Figures in Saudi Arabia’s 2018 Budget, 2017 Fiscal Data”, Bloomberg, 19.12.2017, <https://www.bloomberg.com/news/articles/2017-12-19/key-figures-in-saudi-arabia-s-2018-budget-2017-fiscal-data> [accessed: 14.07.2018].
- Feteha A., Nereim V., “Saudi Arabia’s Safety-Net Spending Wipes Out New Tax Gains”, Bloomberg, 9.05.2018, <https://www.bloomberg.com/news/articles/2018-05-09/saudi-arabia-s-safety-net-spending-wipes-out-new-tax-gains> [accessed: 14.07.2018].
- Friedman G., “The U.S. Opts for Ineffective Sanctions on Russia”, Stratfor, 29.04.2014, <https://worldview.stratfor.com/article/us-opts-ineffective-sanctions-russia> [accessed: 14.07.2018].
- Gray M., *A Theory of “Late Rentierism” in the Arab States of the Gulf*, Occasional Paper 2011 (7), <https://repository.library.georgetown.edu/bitstream/handle/10822/558291/CIRSOccasionalPaper7MatthewGray2011.pdf> [accessed: 14.07.2018].
- Hambling D., “Forget Fracking, Microwave Zaps Could Clean up the Oil Business”, *New Scientist*, 12.08.2015, <https://www.newscientist.com/article/mg22730340-400-forget-fracking-microwave-zaps-could-clean-up-the-oil-business/> [accessed: 14.07.2018].
- Hodgson C., “The Fragile Balance Between Saudi Arabia’s Ruling Class and Its People is ‘Unsustainable’”, *Business Insider*, 16.11.2017, <http://www.businessinsider.com/saudi-arabian-social-contract-unsustainable-2017-11?IR=T> [accessed: 14.07.2018].
- Hubbard B., “Saudi Arabia Agrees to Let Women Drive”, *The New York Times*, 26.10.2017, <https://www.nytimes.com/2017/09/26/world/middleeast/saudi-arabia-women-drive.html> [accessed: 14.07.2018].
- Hubbard B., “Saudi King Rewrites Succession, Replacing Heir With Son, 31”, *The New York Times*, 21.06.2017, <https://www.nytimes.com/2017/06/21/world/middleeast/saudi-arabia-crown-prince-mohammed-bin-salman.html> [accessed: 14.07.2018].
- International Monetary Fund, *Diversifying Government Revenue in the GCC: Next Steps*, Gulf Cooperation Council, 26.10.2016, <https://www.imf.org/external/np/pp/eng/2016/102616.pdf> [accessed: 14.07.2018].
- International Monetary Fund, *Labor Market Reforms to Boost Employment and Productivity in the GCC*, Gulf Cooperation Council, 5.10.2013, <https://www.imf.org/external/np/pp/eng/2013/100513.pdf> [accessed: 14.07.2018].
- International Monetary Fund, *Legacies, Clouds, Uncertainties*, World Economic Outlook October 2014, <http://www.imf.org/external/pubs/ft/weo/2014/02/> [accessed: 14.07.2018].
- International Monetary Fund, *Middle East and Central Asia*, Regional Economic Outlook 2015, <http://www.imf.org/external/pubs/ft/reo/2015/mcd/eng/pdf/menap1015.pdf> [accessed: 14.07.2018].
- Johnson R.C., Mercier T.J., Brownfield M.E., “Assessment of In-Place Oil Shale Resources of the Green River Formation, Greater Green River Basin in Wyoming, Colorado, and Utah”, United States Geological Survey 2011, <https://pubs.usgs.gov/fs/2011/3063/pdf/FS11-3063.pdf> [accessed: 14.07.2018].

- Johnson R.C., Mercier T.J., Brownfield M.E., Pantea M.P., Self J.G., “Assessment of In-Place Oil Shale Resources of the Green River Formation, Piceance Basin, Western Colorado”, United States Geological Survey 2009, <https://pubs.usgs.gov/fs/2009/3012/pdf/FS09-3012.pdf> [accessed: 14.07.2018].
- Johnson R.C., Mercier T.J., Brownfield M.E., Self J.G., “Assessment of In-Place Oil Shale Resources of the Green River Formation, Uinta Basin, Utah and Colorado”, United States Geological Survey 2010, <https://pubs.usgs.gov/fs/2010/3010/pdf/FS10-3010.pdf> [accessed: 14.07.2018].
- Koepp S., “Cheap Oil!”, *Time*, 14.04.1986, <http://content.time.com/time/print-out/0,8816,961087,00.html> [accessed: 14.07.2018].
- “KSA Population Is 30.8m; 33% Expats”, *Arab News*, 31.01.2015, <http://www.arabnews.com/featured/news/697371> [accessed: 14.07.2018].
- Mahan A.T., *The Influence of Sea Power upon History, 1660–1783*, New York 1987.
- Market Insider Crude Oil Data, <http://markets.businessinsider.com/commodities/oil-price?type=wti> [accessed: 14.07.2018].
- McDowall A., “Saudi Arabia Doubles Private Sector Jobs In 30-month Period”, *Al Arabiya*, 19.01.2014, <http://english.alarabiya.net/en/business/2014/01/20/Saudi-Arabiya-doubles-number-of-citizens-in-private-sector-jobs.html> [accessed: 14.07.2018].
- Mills M.P., *SHALE 2.0. Technology and the Coming Big-Data Revolution in America's Shale Oil Fields*, Energy Policy & Environment Report 2015 (16), [https://www.manhattan-institute.org/pdf/eper\\_16.pdf](https://www.manhattan-institute.org/pdf/eper_16.pdf) [accessed: 14.07.2018].
- Ministry of Labor and Social Development Kingdom of Saudi Arabia, *Saudi Arabia Labor Market Report 2016*, July 2016, <https://irp-cdn.multiscreensite.com/ff00f1f0/files/uploaded/G20%20Labor%20Market%20Report%202016%20-%20Final%20-%20Low%20res.pdf> [accessed: 14.07.2018].
- Molla R., “This is Where SoftBank’s \$98 Billion Vision Fund Has Invested so Far”, *Recode*, 7.12.2017, <https://www.recode.net/2017/12/7/16747706/where-has-softbank-vision-fund-invested> [accessed: 14.07.2018].
- National Foreign Assessment Center, “Estimating Soviet and East European Hard Currency Debt”, 1980, <https://www.cia.gov/library/readingroom/docs/CIA-RDP-08S01350R000100180002-6.pdf> [accessed: 14.07.2018].
- Organization of the Petroleum Exporting Countries, “Saudi Arabia Facts and Figures”, [http://www.opec.org/opec\\_web/en/about\\_us/169.htm](http://www.opec.org/opec_web/en/about_us/169.htm) [accessed: 14.07.2018].
- “Russia Stages Massive WW2 Parade Despite Western Boycott”, *BBC*, 5.09.2015, <https://www.bbc.com/news/world-europe-32668511> [accessed: 14.07.2018].
- “Russia to Cut Social Spending in 2016”, *Russia Today*, 14.01.2016, <https://www.rt.com/business/328915-russia-social-spending-2016/> [accessed: 14.07.2018].
- Rystad Energy, “Permian Midland Review: Acreage High Grading and Breakeven Prices”, March 2017, <https://www.rystadenergy.com/newsevents/news/newsletters/Us-Archive/shale-newsletter-march-2017> [accessed: 14.07.2018].
- “Saudi Arabia Has ‘Clear Link’ to UK Extremism, Report Says”, *BBC*, 5.07.2017, <https://www.bbc.com/news/uk-politics-40496778> [accessed: 14.07.2018].
- “Saudi Arabia Pays \$533mn to Half the Population in New Welfare System”, *Russia Today*, 21.12.2017, <https://www.rt.com/newsline/413880-saudi-arabia-welfare-system/> [accessed: 14.07.2018].

- “Saudi Arabia to Let Women Enter Sports Stadiums in 2018”, Reuters, 30.10.2017, <https://www.reuters.com/article/us-saudi-women-stadiums/saudi-arabia-to-let-women-enter-sports-stadiums-in-2018-idUSKBN1CZ0LQ> [accessed: 14.07.2018].
- Shahine A., Carey G., Nereim V., “Saudi Arabia Just Announced Plans to Build a Mega City That Will Cost \$500 Billion”, Bloomberg, 24.10.2017, <https://www.bloomberg.com/news/articles/2017-10-24/saudi-arabia-to-build-new-mega-city-on-country-s-north-coast> [accessed: 14.07.2018].
- Shankleman J., Warren H., “Solar Power Will Kill Coal Faster Than You Think”, Bloomberg, 15.06.2017, <https://www.bloomberg.com/news/articles/2017-06-15/solar-power-will-kill-coal-sooner-than-you-think> [accessed: 14.07.2018].
- Spykman N.J., Nicholl H.R., *The Geography of the Peace*, New York 1944.
- Stern D.I., “Economic Growth and Energy”, [in:] *Encyclopedia of Energy*, Vol. 2, eds. C.J. Cleveland, R.U. Ayres, Amsterdam 2004, <http://sterndavidi.com/Publications/Growth.pdf> [accessed: 14.07.2018].
- Stone J., “Saudi Arabia Says It Won’t Rule out Building Nuclear Weapons”, *Independent*, 27.03.2015, <https://www.independent.co.uk/news/world/middle-east/saudi-arabia-says-it-wont-rule-out-building-nuclear-weapons-10139229.html> [accessed: 14.07.2018].
- Tisdall S., “Saudi Arabia and the West: How a Cosy Relationship Turned Toxic”, *The Guardian*, 27.01.2015, <https://www.theguardian.com/world/2015/jan/27/saudi-arabia-and-the-west-how-cosy-relationship-turned-toxic> [accessed: 14.07.2018].
- Torchia A., “Cost no Barrier to Saudi Arabia’s Yemen Intervention”, Reuters, 31.03.2015, <https://www.reuters.com/article/us-yemen-security-saudi-cost/cost-no-barrier-to-saudi-arabias-yemen-intervention-idUSKBN0MR1KZ20150331> [accessed: 14.07.2018].
- Trading Economics, Russia Foreign Exchange Reserves, <https://tradingeconomics.com/russia/foreign-exchange-reserves> [accessed: 14.07.2018].
- Trading Economics, Russia GDP Annual Growth Rate, <https://tradingeconomics.com/russia/gdp-growth-annual> [accessed: 14.07.2018].
- U.S. Energy Information Administration, “How Much of the Oil Produced in the United States is Consumed in the United States?”, <https://www.eia.gov/tools/faqs/faq.php?id=268&t=6> [accessed: 14.07.2018].
- U.S. Energy Information Administration, “International Energy Outlook 2017”, 14.09.2017, [https://www.eia.gov/outlooks/ieo/pdf/0484\(2017\).pdf](https://www.eia.gov/outlooks/ieo/pdf/0484(2017).pdf) [accessed: 14.07.2018].
- Urban M., “Saudi Nuclear Weapons ‘On Order’ from Pakistan”, *BBC*, 6.11.2013, <https://www.bbc.co.uk/news/world-middle-east-24823846> [accessed: 14.07.2018].
- Vendil Pallin C., Westerlund F., “Russia’s War in Georgia: Lessons and Consequences”, *Small Wars & Insurgencies* 2009, Vol. 20, No. 2, pp. 400–424. doi: 10.1080/09592310902975539.
- Wald E.R., “Saudi Arabia’s 2018 Budget Is The Country’s Largest Ever”, *Forbes*, 19.12.2017, <https://www.forbes.com/sites/ellenwald/2017/12/19/saudi-arabias-2018-budget-is-the-countrys-largest-ever/#71026c7c5e29> [accessed: 14.07.2018].
- Wehrlé F., Pohl J., *Investment Policies Related to National Security: A Survey of Country Practices*, OECD Working Papers on International Investment 2016 (2), [https://www.oecd-ilibrary.org/finance-and-investment/investment-policies-related-to-national-security\\_5jlwrrf038nx-en](https://www.oecd-ilibrary.org/finance-and-investment/investment-policies-related-to-national-security_5jlwrrf038nx-en) [accessed: 14.07.2018].

Wintour P., “Saudi Crown Prince Warns It Will Build Nuclear Bomb if Tehran Does the Same”, *The Guardian*, 15.03.2018, <https://www.theguardian.com/world/2018/mar/15/saudi-arabia-iran-nuclear-bomb-threat-mohammed-bin-salman> [accessed: 14.07.2018].

## **Ameryka i plan Dominacji Energetycznej – nowy sposób zmiany reżimu?**

W grudniu 2017 r. administracja prezydenta Donalda Trumpa zapowiedziała zasadniczą zmianę w amerykańskiej polityce energetycznej. Korzystając z rewolucji w wydobywaniu gazu i ropy, tzw. *shale revolution*, USA podejmie próbę dominacji światowego rynku węglowodorów. Plan wymaga zmian w prawie, stworzenia nowej infrastruktury oraz porozumień handlowych, które pozwolą Amerykanom na eksport ropy oraz gazu za granicę na znacznie większą niż dotychczas skalę.

Artykuł analizuje możliwy wpływ tej decyzji na geopolitykę krajów eksportujących ropę naftową, ze szczególnym uwzględnieniem Rosji oraz Arabii Saudyjskiej. Obydwa kraje posiadają gospodarki mocno zależne od eksportu gazu i ropy – bez niego ich budżety mogą mieć trudności w finansowaniu działalności swoich państw, a gospodarki w utrzymaniu się na powierzchni. Jednocześnie kraje te prezentują typ polityki zagranicznej, który jest wysoce zależny finansowo od sprzedaży węglowodorów, dlatego brak zysków może utrudnić utrzymanie im obecnego kursu. W przypadku Rosji może to spowodować problemy w kontynuowaniu agresywnej postawy wobec USA. Z kolei Arabia Saudyjska może nie zagwarantować równowagi sił w regionie w odpowiedzi na działania wrogiemu Iranu, rosnącej w siłę Turcji, asertywnego Izraela oraz różnego typu aktywnych rebeliantów-dżihadystów operujących w przygranicznych krajach.

Artykuł stwierdza, że połączenie amerykańskiego planu dominacji energetycznej z radykalnymi zmianami w przemyśle motoryzacyjnym – który przechodzi z ropy na energię elektryczną – znacząco zmniejszy zdolność Rosji, Arabii Saudyjskiej oraz innych państw stosujących podobną politykę do finansowania swoich działań ze sprzedaży ropy i gazu, przemieniając te zyski w wpływy międzynarodowe. Stany Zjednoczone znajdują się na wyjątkowej pozycji, która pozwoli na zastosowanie narzędzi selektywnego nacisku na gospodarki Rosji i Arabii Saudyjskiej, tak aby wpłynęły na zachowanie tych państw. Zarówno Moskwa, jak i Rijad pozbawione zysków ze sprzedaży węglowodorów, stracą zdolność do: utrzymania poparcia dla reżimów, pacyfikowania niezadowolonych, jak również projekcji sił na zewnątrz. W rezultacie pozycja Waszyngtonu wzrośnie, pomimo rosnącej roli Chin w świecie, który staje się coraz bardziej asertywny wobec amerykańskiej polityki.

**Słowa kluczowe:** Stany Zjednoczone, Rosja, Arabia Saudyjska, ropa, plan dominacji energetycznej, geopolityka

## **America and Energy Domination Plan – A New Way of Regime Change?**

In December of 2017 the U.S. administration under President Donald Trump announced a fundamental change in the U.S. energy policy. Capitalizing on the rapid changes in oil and gas extraction technologies called the shale revolution, the U.S. will attempt to dominate the world market of hydrocarbons. The plan calls for regulatory changes, building new infrastructure and creating trade agreements that will allow the U.S. to export oil and gas abroad on a much bigger scale than previously.

This article examines the possible impact of this decision on the geopolitics of oil-exporting countries, with a particular focus on Russia and Saudi Arabia. Both of those countries have economies heavily dependent on oil and gas exports. Without them, their budgets may have difficulty in financing state operations and economies – staying afloat. At the same time, they both present the

type of foreign policy that is financed from the sale of hydrocarbons. Without those profits, it may be challenging for them to continue this approach. In the case of Russia, it may result in problems with maintaining its aggressive stance towards the U.S. In the case of Saudi Arabia, Riyadh may not be able to guarantee the balance of powers in the region vis-a-vis hostile Iran, growing Turkey, assertive Israel and active jihadist rebels of various kind in neighbouring countries.

Paper concludes that a combination of the U.S. energy dominance plan together with radical shifts in the automobile industry – which is transitioning from gasoline engines to electrical ones – will significantly decrease the ability of Russia, Saudi Arabia and others using similar policy combinations to transform their oil and gas revenues into international influence. The United States will be in a unique position to use tools of selective pressure on their economies to alter their behaviour. Both Moscow and Riyadh without the hydrocarbon profits will lose their ability to: maintain support for the regime, pacify dissent as well as projecting power outside. As a result, Washington's position in the world will increase, despite the growing role of China and despite the world that is becoming more assertive towards the U.S. power.

**Key words:** United States, Russia, Saudi Arabia, oil, energy domination plan, geopolitics