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THE COLLAPSE OF THE SOVIET UNION: SAUDI ARABIA'S OIL POLICY CONNECTION

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Abstract

Although it has spanned over a decade since the Soviet Union collapsed, issues and actions that brought about it are still written, analysed and discussed by academics because not only that it was not envisaged, but the historical imperative of the event is an interesting. As it is, many reasons have been adduced as the ultimate reasons for the disintegration, including the perestroika and glasnost reforms of Mikhail Gorbachev. Some of these reasons were the remote and immediate causes. In this piece, efforts are made to examine how Saudi Arabia's oil policy triggered the disintegration of the Soviet Union. The importance of this is to enable us to adequately comprehend the present oil crisis between Saudi Arabia and Russia with a view to correctly analyse the trend and possible direction of it.

Keywords: Saudi Arabia, Soviet Union, Russia, Oil policy, Perestroika and Glasnost.

Soviet Union and Oil Production

In the 1960s and 1970s, the country that was the big growth story was the Soviet Union. Its oil consumption grew by leaps and bounds. Its space program grew; its military programme grew; and it became much more industrialised (Tverberg 2011: 10). The Soviet Union was a big oil exporter. It should be noted, according to Manaev (2020: 12) that the price for extracting oil has always been, and still is, very low in the countries that are members of the Organisation of Petroleum Exporting Countries (OPEC), Saudi Arabia, Iraq, and Iran among them. So, some members of OPEC have always had the option of cutting or increasing the prices of their petroleum products on world markets to influence the global economy. Saudi Arabia, as the undisputed leader of petroleum extraction have severally exercised this option in the past.

However, the 1973 oil crisis triggered global recession and economic crisis. Manaev (2020: 231) pointed out that on October 17, 1973 the whole Organisation of Arab Petroleum Exporting Countries (OAPEC) backed by Egypt and Syria stopped selling petroleum to countries that supported Israel in the Yom Kippur War against Egypt and Syria. These countries were Canada, Japan, the Netherlands, the United Kingdom, and the United States. The embargo was accompanied by gradual monthly production cuts-by December 1973, OAPEC's production was a quarter of September 1973 levels. And by the end of the embargo in 1974, the price of oil had risen from $3 barrel to $12 barrel, and in the US, it was even higher. (US Central Intelligence)

The 1973 crisis had long term consequences. Japanese automobiles that could do double the number of kilometres on a single tank of fuel became market leaders, while the United and

other western countries started looking for new oil deposits and improved extraction techniques. Meanwhile, the Soviet Union was still making huge profits selling its oil.

Between 1960 and 1973, Soviet oil production had almost tripped. As production in Volga Arabs region plateaued, rich fields were found in west Siberian Basin, making Soviet oil reserves the largest in the world outside the Persian Gulf (Venn, 2002: 13).

According to Alekperov (2011 289-299) in the mid – 1970s, the Soviet Union overtook the United States as the world's leading oil producer. In addition to exporting oil to western countries, the Soviet supplied oil to Cuba and Vietnam at subsidized prices, and sent oil as economic assistance to Afghanistan, Ethiopia, Mozambique, Nicaragua, and South Yemen. Smith (1993:81) adds that during the 1970s, the Soviets increased oil exports to hard currency market. While the percentage of exports that went to the West varied from year to year, Soviet hard-currency earnings from oil exports doubled in 1973and again in 1974 and continued to for the rest of the decade.

By early 1976, oil exports were responsible for half of the Soviet Union's hard currency earnings. Exports to developing countries of arms, military equipment, and dual-use, civilian goods grew after the 1973 Arab-Israeli War as the rise in the revenues of oil exporters increased their purchasing power. Before 1973, Soviet arms transfers were mainly to newly emerging leftists' regimes and national liberation movements. After1973, more than half of Soviet arms deliveries went to Middle Eastern states with access to oil money. Again, Smith (1993: 87) adds that most of these sales were for hard currency from arms sales, and earned around $23 billion on bilateral or soft currency arms sales. It is important to state that higher earnings from oil exports allowed the Soviet to continue importing large amounts of grain and food to cover poor harvests and to import western technology. There is no gainsaying the fact, that some of this technology probably enhanced Soviet military capabilities by being utilized, in new weapons platforms and improving existing ones. Higher oil revenues many also have made it possible for the Soviets to increase their involvement in the Third World in the 1970s.

There was a reversed trend of events in 1979 as the Islamic Revolution in Iran caused a severe cut in oil production. According to Manaev (2020: 233), this led to a further rise in global oil prices. The Iran-Iraq War that began in September 1980 only exacerbated the situation. But by the beginning of the 1980s, the joint efforts of the United States and other 'first world' countries had paid off: oil prices started dropping because of overproduction. He went further to say that in 1981, the United States administration dropped the state price control for oil and oil products, at the same time lowering taxes. Oil prices dropped continuously from 1980 onward. Between 1979 and 1985, oil consumption in the non-communist world fell from 51.6 to46.3 million, bpd as a result of higher prices and recessions in 1973 – 1975 and1979-1982. In addition, coal and natural gas replaced fuel oil in many industrial and utility uses, the total use of nuclear power by the advanced industrial counties more than doubled. Over the same period, non – OPEC Oil Production, mainly in Great Britain, Norway, Mexico, and the United States, increased from 17.7 to 22.6 million barrels per day, as higher prices and advances in technology, especially in offshore production, spurred increased output. The result, according to Manaev (2020: 152) was a 10.2 million bpd drop in demand for OPEC oil. In spite of the disruption caused by the Iran-Iraq War, these changes in supply and demand began to affect

prices. After initially trying to support prices by reducing output, the Saudi leadership decided in the summer of 1985 to regain their position in world markets by increasing production. Instead of selling oil at a fixed prices, the price would be determined by what refined products sold for in the Presidential Directive PD/NSC- 62 (Federation of American Scientists web site).

The 1985-1986 Oil Crises and the Collapse of the Soviet Union

According to Manaev (2020), in four months during the crisis, Saudi extraction rose from two million to $10. For the USSR's economy – already accustomed to exorbitant incomes from its oil, this was a death blow. In 1986 alone, the USSR lost more than $20 billion (approximately 7.5% of the USSR's annual income), and it already had a budget deficit.

He stressed that it was enough for the already unhealthy, command-style Soviet economy to crumble. In 1986, USSR's external loans were about $30 billion, by 1989 they had reached $50 billion.

In the analysis of Tverberg (2011: 3), as oil production dropped in the 1988 – 1991 period, the Former Soviet Union oil export plummeted. Given the combination of a low quantity of oil exported, and low sale price of oil exports, the Former Soviet Union found itself in financial difficulty; it could not afford to pay for food imports, which it badly needed, and the country collapsed.

According to Painter (2008:77-80), the price collapse decimated Soviet hard currency earnings and undermined the reform plans of the new Soviet government of Mikhail Gorbachev, who had come to power in March 1985. He goes further to say that Gorbachev hoped to use oil earnings to finance a modernization of the Soviet industry and to improve living standards, thus easing the transition from a command economy to a market economy and a more democratic society. The declining oil prices played an important role in the collapse of the Soviet economy, the end of the cold war, and the disintegration of the Soviet Union. Many conservative writers are of the opinion that the Reagan administration created the oil price collapse to bring about the fall of communism and win the Cold War. Before this, however, Gorbachev and the generation of Soviet leaders that emerged in the 1980s had already accepted that continued conflict with the West threatened their goal of overcoming the disastrous legacy of Stalinism, reforming their economy, democratizing their politics, and revitalizing their society.

Painter therefore concludes by saying that rather than killing communism, which was already terminally ill, the collapse of oil prices precluded the possibility of social democracy in the Soviet Union.

Another account by Bloomberg (2020: 9) says that oil played an under-appreciated role in the fall of the Soviet Union. According to him, as the USSR's industrial and agricultural economies started to falter in the 1970s, it was an oil boom that kept the nation's head above water. Buoyed by the sharp rise in prices as a result of the 1973 and1979 oil crisis, the country opened up vast petroleum reserves in Siberia. The hard currency earned paid for grain imports to feed a burgeoning urban population, as well as funding its ruinous war in Afghanistan.

That spending was largely financed by Saudi Arabian restraint. With demand from wealthy oil importers collapsing as a result of the new higher prices and supply from non-Gulf producers surging, the Kingdom cut output by nearly two thirds through the early 1980s in an attempt to re-balance the market and lift prices. Something had to give– and the result was disastrous for Moscow.

On his account of the collapse of the Soviet Union Cowen (2007: 13) succinctly states that the time-line of the collapse of the Soviet Union can be traced to September 13,1985. On this day, according to him, 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 and Saudi Arabia quickly regained its share in the world market. During the next six months, oil production in Saudi Arabia increased fourfold, while oil prices collapsed by approximately the same amount in real terms.

The consequence of this was that the Soviet Union lost approximately $20 billion per year, money without which the country simply could not survive. The big question for the country's leadership was the next line of action. Cowen continued by saying that there were three options or combinations of three options available to the Soviet leadership.

First, dissolve the Eastern European Empire and effectively stop barter trade in oil and gas with the Soviet bloc countries, and start charging hard currency for the hydro carbons. This choice, however, involved convincing the Soviet leadership in 1985 to jettison completely the result of the World War II. It was therefore, not a better option.

Second, drastically reduce Soviet food inputs by $20 billion, the amount the Soviet Union lost when oil prices collapsed. But in practical terms, this option meant the introduction of food rationing at rates similar to those used during World War II. The Soviet leadership understood the consequences. The Soviet system would not survive for one month. This idea was never seriously discussed.

Third, implement radical cuts in the military individual complex. With this option, however, the Soviet leadership risked serious conflict with regional and industrial elites, since a large number of Soviet cities depended solely on the military-industrial complex. This choice was also never seriously considered (New York Times).When these options were not explored, the Soviet Union simply relied on hopes that the crisis would soon wither away and therefore decided to go into borrowing. It borrowed heavily from 1985 to 1988 but could not go further as the country's economy stalled completely in 1989. The alternative left for the country was to create a consortium of 300 banks to provide loans in 1989. This was unfortunately unable to provide the needed solution as out of the 300 – banks, only five of them indicated interest in participating and the consequence of this was that the loan would be twenty times smaller than needed.

While this new going on, Cowen (2007: 17) adds that the Soviet Union then received a final warning from the Deutsche Bank and from its international partners that the funds would never come from commercial sources. Instead, if the Soviet Union urgently needed the money, it would have to start negotiations directly with Western governments about so-called politically motivated credits.

Summarizing, the fall of the Soviet Union in his own analysis, Manaev (2020: 8), says that the oil crisis significantly helped the US in winning the Cold War against the USSR: the economic recession led by Mikhail Gorbachev to make hugely unpopular political decisions. An attempt to reform the governmental system (known as perestroika) was largely hopeless due to the lack of funds. Gorbachev's populist rhetoric didn't play well with an impoverished population. They demanded responsibility for the governments short-sighted actions, and that's when Boris Yeltsin came in with his harsh critique of the Soviet system at large. By the end of the 1980s the collapse of the Soviet Union was all but inevitable.

Conclusion

There is no gainsaying the fact that the price of oil to a very great extent led to the disintegration of the former Soviet Union. A country that solely depended on oil but could not control the output and world price at all times was bound to be in the same shoes with the former Soviet Union. This, however, does not mean to say that the former Soviet Union did not have other fuels and natural resources. It is important to note that other fuels have also been affected by the break-up of the former country. Neither coal nor natural gas did get to the level of consumption in 1991. The consequence of this was that this lower internal consumption of natural gas and coal left more fossil fuels in the ground helping world CO2 emissions, and enabling more former Soviet Union exports later, without the need to add as much more new productive capacity, and new pipes, as would otherwise be the case.

Russia (with the assistance of other former Soviet Union countries) is now a major exporter of natural gas to Europe. Russia is also an exporter of coal, with exports almost tripling since 2000, and with a new contract signed to sell more coal to China.

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