

Donald Trump gave a huge gift to Vladimir Putin, and may have saved the Russian government

Por Mark Sumner
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A report on Russian state media shows that Donald Trump has already delivered not just a gift to Vladimir Putin, but possibly the gift that Putin has wanted all along. In a conversation on RT, the two hosts note that to implement all the domestic programs Putin has promised for Russia, the cost will be 8 trillion rubles (\$127 billion). But, where, the host questions, is Russia to get such a huge amount when the government has long been strapped for cash?

Female host says: "Looks like we found it. Trump is withdrawing US from the Iran nuclear deal. Oil prices should go up, which is good for us."

Crude oil futures have leapt from \$26 at the time of Trump's election to \$77 today. Back in January, Trump actually certified that Iran was in compliance with the nuclear agreement. However, Trump threatened to end the agreement if it wasn't expanded to include items unrelated to Iran's nuclear program and "strengthened" in unspecified ways.

Trump increased his warnings that he would end the deal in February, and by March was engaged in talks with European allies—talks at which allies consistently urged

Trump to remain in the deal and Trump consistently announced his intention to walk away. As the talks wore on, and Trump's intransigence became clear, fears of a destabilized Middle East began to shore up oil prices.

Russian oil production hovers around 10 million barrels a day. That means the increase that has already happened in oil prices is providing Putin with an extra \$520 million a day. If the prices were to continue at the level generated by Trump's actions for a year, Putin could meet all his promises to Russia—and have \$60 billion to spare—just out of the net increase.

Everything else that Trump has or hasn't done about Russia, any sanctions, any tariffs, any expelled diplomats, absolutely pales in comparison to the huge boost he provided to the Russian economy by backing away from the Iran nuclear deal. In fact, short of actually starting a shooting war in the region, it's difficult to find anything else that Trump might have done of more benefit to Putin. It's certainly difficult to think of anything Trump might have done to generate a more certain boost for Russia.

Which raises the question: Was this the deal all along?

Since oil prices began falling from record highs a decade ago, Russia has been facing steep deficits. This has led to a significant level of privation. Russia has reduced its gaping debt over the last year, but only by slashing vital programs. It has also affected Russia's ability to deploy its military power.

In 2014, as oil prices declined again, the value of the ruble tumbled, making it more difficult for Russia to borrow or import goods. At the start of 2015, the purchasing power index for Russia—the actual value of the country's money when it comes to buying a standard “basket of goods”—was the lowest in the world.

The falling ruble triggered waves of inflation across Russia, putting prices up by double digits across the board, raising the interest rates to near 20 percent, and leading to widespread calls for wage and price controls. In 2016, Russia's faced growing debt and declining GDP. Retail sales and personal wealth were both sharply down. Predictions were for a sustained period of oil prices below \$20.

Despite the apparent ease with which Putin retained office, the prolonged pinch was beginning to hurt. Mass anti-Putin protests broke out in multiple cities on several occasions since 2011. Increasing emigration threatened to rob the country of its best and brightest. Putin ran for re-election on a platform of returning Russia to Soviet-era glory, with radical boosts to infrastructure and technology. But the prospect for meeting those goals seemed slim.

Officially, Russia had been planning for moderating markets in 2018, with small production cuts from OPEC setting the oil price around \$45. Only that number seemed optimistic. Even six months ago, increased US production and flat global demand looked to hold prices down for an extended period.

Only one thing could stabilize the Russian currency, safeguard the government against a fresh wave of protests, and allow Putin to deliver on his fat stack of promises—a steep increase in oil prices. But oil was cheap, and there was no reason for it to stop being cheap.

So, if Donald Trump was tasked with solving that problem, what could he do?

Trump could hardly order a cut in US production. He might increase US strategic reserves, but not only would that generate a temporary effect, the current reserve is only 30 million barrels below the maximum capacity. Hardly enough to disrupt the market. He might also take steps to increase US consumption, such as raising CAFE standards. Which he has. But that effect will be felt more over the long term.

The only way to drive prices up significantly was to threaten the production of a nation that made a significant contribution to the world market. A contributor like Iran, which exports 2.5—3.8 million barrels a day, making it the third largest player in OPEC.

Iran has several advantages as a target. It's not a US ally. It's already wracked by internal instability that has world markets eyeing it warily. And best of all, Trump had a direct connection to Iran through the nuclear agreement. He could pull that cord, and watch the market go nuts.

Breaking the agreement didn't really cost Trump much. Just the faith of every other nation on the planet, who now see that the US is willing to violate a treaty over the objections of allies and the evidence that the other party is living up to the deal. In other words, nothing that will concern his supporters.

But for Putin, Trump's actions are mana from heaven; an undeserved bounty. Putin literally had to do nothing to see the Russian economy lifted out of the ditch where it has languished for years and restored to a position that empowers both domestic and military goals.

Putin had to do nothing ... unless, of course, this is exactly why he did everything.

For Trump's part, there seems to be no evidence that he left the Iran agreement with the goal of restoring Putin's power. But it's completely evident that's what he achieved.

1 Correction

An earlier version of this article incorrectly said that oil prices were much lower at the "start of the year" rather than the start of Trump's time in office, making the rise in oil prices seem much more dramatic. This was a mistake.