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INDEPENDENT NEWS FROM RUSSIA

Trump Threatens to Strangle Russia's Economy with an Oil Price Collapse. Is He Bluffing?

Donald Trump says he can drive down prices to force the Kremlin to compromise on the Ukraine war. But this requires the help of Arab states which may be reluctant to endorse a U.S. request.

By Moscow Times Reporter

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Pumpjacks extract oil from a well operated by Elkhovneft, a subsidiary of Tatneft, one of the largest Russian oil and gas producers. **Yegor Aleyev / TASS**

In recent weeks, U.S. President Donald Trump has stressed the importance of high oil prices in Russia's ability to wage war on Ukraine and suggested that strangling its energy revenues would make the Kremlin more amenable to compromise in peace talks.

In addition to announcing an energy emergency in the U.S. to boost gas and oil output, Trump called on members of OPEC, a Saudi-led alliance of oil producers, to help bring down the price.

“Right now the price is high enough that that war will continue, you gotta bring down the oil price and end the war,” Trump said on Jan. 24.

“One way to stop it [the war] quickly is for OPEC to stop making so much money,” he added. “So, OPEC ought to get on the ball and drop the price of oil. And that war will stop right away.”

In its first meeting after Trump's comments, OPEC+ — which includes the Saudi-led alliance and other oil-producing countries such as Russia — stuck to its previously agreed oil supply plans on Monday.

The current OPEC plan is to continue with oil supply curbs this quarter before gradually increasing output from April.

This means that although Trump's pressure has not been heeded so far, things may change in the future.

How important are oil revenues to Russia?

Energy is Russia’s key export and the source of most of its hard currency, which it receives from abroad.

Western sanctions have created hurdles for Russian gas exports by creating pipeline bottlenecks that made it difficult for Moscow to replace volumes it used to sell to Europe with exports to other countries, namely China.

At the same time, Russian oil exports, most of which are transported by sea, remain stable and account for over 60% of the country's energy shipments.

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The Kremlin has been able to redirect oil exports from Europe to India and China, although this route is more expensive due to longer voyages and the cost of the so-called “shadow fleet” of vessels used to skirt sanctions.

So far, the West's sanctions strategy has focused on increasing Russia's costs and reducing its oil profits rather than cutting off supplies completely. For example, Russia can still legally sell its oil on world markets under certain conditions, unlike Iran, which faces a blanket ban on all of its oil exports.

The problem is that Russia's clout in the energy market is big enough that if all of its oil were sanctioned at once, this could cause panic and send global prices soaring.

“If there is there is nobody to backfill [Russia’s oil volumes], then the balance is tightened, the price goes up, and that’s the exact opposite of what Trump is trying to achieve, which is substantially lower energy prices," Natasha Kaneva, JPMorgan's head of global commodities strategy, told Bloomberg TV.

What is the current oil outlook for 2025?

As things stand, the price of the benchmark Brent crude blend is expected to average $74 per barrel in 2025, down from $81 in 2024, according to the U.S. Energy Information Administration (EIA).

The EIA released its forecast on Jan. 21 — that is, after Trump's election and his push for greater oil and gas production.

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The $70 mark is enough for Russia to make a profit on its oil sales, even though Russia's Urals brand of oil usually trades at a discount to Brent.

The Russian government expects to sell oil at an average of $69.7 per barrel in 2025.

A drop in oil prices is unlikely to bring the Russian economy to a halt, but it will put a dent in the budget. Every $10-a-barrel change in the export price of Russian oil translates to about $17 billion a year in lost revenues. This is about 4% of Russia's overall exports in 2023, which amounted to $425.1 billion.

What can sink Russia's oil revenues?

The U.S. alone doesn't have much room to increase oil production, at least in the short term, according to analysts including Sergei Vakulenko and Paul Sankey.

OPEC members, mainly Saudi Arabia, have over 2 million barrels per day of "short-order" spare capacity, or oil they can quickly release into the market to influence prices.

Theoretically, OPEC can help the U.S. create enough oil supply to lower oil prices and potentially crowd out a significant portion of Russian oil from the market. Whether the U.S. has enough levers to pull this off — and whether this move serves Washington's interests — is another matter.

First, the U.S.'s equilibrium price for continuing its oil drilling is about $60 per barrel, according to JP Morgan analyst Natasha Kaneva.

"We estimate that at the $60 price level, U.S. production is flat. At $50, U.S. production is definitely declining," Kaneva said.

She added that Trump's likely plan is to ease regulations on the oil industry so that the U.S. can cheaply increase its production even when prices are low. However, the results of such a policy would not be seen immediately, but in years to come, she noted.

Second, it may be problematic for OPEC producers, especially Saudi Arabia, to lower prices even to secure greater market share because they need high oil prices to balance their budgets.

For example, Saudi Arabia requires an oil price of about $90 per barrel to meet its expected budget spending needs without running a deficit.

Despite Trump's push for lower oil, OPEC is unlikely to do much in the near term and may instead wait to see if any actual shortages appear on the market from the scramble to replace Iranian and Russian supplies, analyst Rachel Ziemba said.

Ultimately, OPEC will likely focus on its long-term interests, and that includes keeping Russia involved in any OPEC+ deal, Ziemba added.

There is also a political component to why the Gulf states are hesitant to give in to Trump's demands.

OPEC countries may be reluctant to set a precedent of a major oil producer, in this case Russia, being forced to sell its oil for cheap on Western terms, Vakulenko noted.

If that happens, a similar mechanism could be applied to the Persian Gulf states, for example, through the U.S. adoption of the No Oil Producing and Exporting Cartels Act (NOPEC) legislation, he said.

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