

December 22, 2014

George Friedman of Stratfor was in Russia recently and his observations start some items on Russia.

I thought the economic problems of Russia would be foremost on people's minds. The plunge of the ruble, the decline in oil prices, a general slowdown in the economy and the effect of Western sanctions all appear in the West to be hammering the Russian economy. Yet this was not the conversation I was having. The decline in the ruble has affected foreign travel plans, but the public has only recently begun feeling the real impact of these factors, particularly through inflation.

But there was another reason given for the relative calm over the financial situation, and it came not only from government officials but also from private individuals and should be considered very seriously. The Russians pointed out that economic shambles was the norm for Russia, and prosperity the exception. There is always the expectation that prosperity will end and the normal constrictions of Russian poverty return.

The Russians suffered terribly during the 1990s under Boris Yeltsin but also under previous governments stretching back to the czars. In spite of this, several pointed out, they had won the wars they needed to win and had managed to live lives worth living. The golden age of the previous 10 years was coming to an end. That was to be expected, and it would be endured. The government officials meant this as a warning, and I do not think it was a bluff. The pivot of the conversation was about sanctions, and the intent was to show that they would not cause Russia to change its policy toward Ukraine.

Russians' strength is that they can endure things that would break other nations. It was also pointed out that they tend to support the government regardless of competence when Russia feels threatened. Therefore, the Russians argued, no one should expect that sanctions, no matter how harsh, would cause Moscow to capitulate. Instead the Russians would respond with their own sanctions, which were not specified but which I assume would mean seizing the assets of Western companies in Russia and curtailing agricultural imports from Europe. There was no talk of cutting off natural gas supplies to Europe.

If this is so, then the Americans and Europeans are deluding themselves on the effects of sanctions. ...

... There was much more toughness on Ukraine. There is acceptance that events in Ukraine were a reversal for Russia and resentment that the Obama administration mounted what Russians regard as a propaganda campaign to try to make it appear that Russia was the aggressor. Two points were regularly made. The first was that Crimea was historically part of Russia and that it was already dominated by the Russian military under treaty. There was no invasion but merely the assertion of reality. Second, there was heated insistence that eastern Ukraine is populated by Russians and that as in other countries, those Russians must be given a high degree of autonomy. One scholar pointed to the Canadian model and Quebec to show that the West normally has no problem with regional autonomy for ethnically different regions but is shocked that the Russians might want to practice a form of regionalism commonplace in the West. ...

... I came away with two senses. One was that Putin was more secure than I thought. In the scheme of things, that does not mean much. Presidents come and go. But it is a reminder that things that would bring down a Western leader may leave a Russian leader untouched. Second, the Russians do not plan a campaign of aggression. Here I am more troubled - not because they want to invade anyone, but because nations frequently are not aware of what is about to happen,

and they might react in ways that will surprise them. That is the most dangerous thing about the situation. It is not what is intended, which seems genuinely benign. What is dangerous is the action that is unanticipated, both by others and by Russia.

At the same time, my general analysis remains intact. Whatever Russia might do elsewhere, Ukraine is of fundamental strategic importance to Russia. Even if the east received a degree of autonomy, Russia would remain deeply concerned about the relationship of the rest of Ukraine to the West. As difficult as this is for Westerners to fathom, Russian history is a tale of buffers. Buffer states save Russia from Western invaders. Russia wants an arrangement that leaves Ukraine at least neutral. ...

... The United States and Europe have trouble understanding Russia's fears. Russia has trouble understanding particularly American fears. The fears of both are real and legitimate. This is not a matter of misunderstanding between countries but of incompatible imperatives. All of the good will in the world - and there is precious little of that - cannot solve the problem of two major countries that are compelled to protect their interests and in doing so must make the other feel threatened. I learned much in my visit. I did not learn how to solve this problem, save that at the very least each must understand the fears of the other, even if they can't calm them.

John Fund posts on Putin's presser.

Vladimir Putin was his usual overbearing self today at his annual three-hour news conference in Moscow, swatting away questions he didn't like and hyperventilating against the West to excuse his economic failures. However, there was a tense moment when a prominent anti-Putin activist and television journalist, Ksenia Sobchak, asked the Russian president whether he was fomenting hatred against others among Russians using state television propaganda. She specifically asked him why the state media hasn't retracted a July story it ran falsely accusing the Ukrainian military of torturing and crucifying a three-year-old Russian boy in a public square.

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Never let it be said that Vladimir Putin's favorite defense isn't a strong offense.

Huffington Post with an article on Russia written in the expectation the current troubles will bring hardship for the government. Expectations George Friedman in the first item above, thinks are overblown.

Russian consumers flocked to the stores Wednesday, frantically buying a range of big-ticket items to pre-empt the price rises kicked off by the staggering fall in the value of the ruble in recent days.

As the Russian authorities announced a series of measures to ease the pressure on the ruble, which slid 15 percent in the previous two days and raised fears of a bank run, many Russians were

buying cars and home appliances — in some cases in record numbers — before prices for these imported goods shoot higher.

The Swedish furniture giant IKEA already warned Russian consumers that its prices will rise Thursday, which resulted in weekend-like crowds at a Moscow store on a Wednesday afternoon. ...

... Should the current attempts to shore up the ruble fail, then the Russian authorities could be imposing capital controls.

However, Russia's Economic Development Minister Alexei Ulyukayev has denied the government is considering doing so. While easing pressure on the ruble, the move would shatter Russia's already tarnished reputation to investors.

Russian officials, meanwhile, have sought to project a message of confidence on state television, dwelling on the advantages of ruble devaluation, such as a boost to domestic manufacturing.

There are fears that the ruble could come under further pressure this week as President Barack Obama is expected to sign legislation authorizing new economic sanctions against Russia.

Whatever happens with the ruble, the Russian economy is set to shrink next year by 0.8 percent, even if oil prices stay above \$80 per barrel. If oil prices stay at the current level of around \$60, the Central Bank said the Russian economy could contract by nearly 5 percent. ...

Megan McArdle posts on what different oil producing countries can expect if the price continues to sag.

... Outside the Middle East, Venezuela is already well into a long economic crisis. The Hugo Chavez regime diverted investment funds from the state-owned oil company into social spending, which caused production to decline. That was a workable trade-off when prices were rising, but now that they're falling fast, so is Venezuela's economy, along with political stability. Last week, I noted that this meant the risk of serious geopolitical repercussions. (The last time oil prices experienced this kind of run-up and decline, the Soviet Union fell.) In the modern global economy, it also means the risk of financial crisis, as problems in Russia and other oil-rich nations reverberate outward through our tightly interlaced networks of finance and trade. China is already fragile, the euro zone is struggling to hold everything together, and while U.S. growth finally seems to be back on track, we will not be immune if the rest of the world is reeling.

Bershidsky suggests that capital controls may well be next for Russia, though the central bank governor denies that they are being considered. Whatever Russia does next, we'd better hope it works. Because if not, the rest of us may be using our newly cheaper gasoline to fuel up for a very bumpy ride.

The Why File reports on the return of large carnivores to Europe. And they aren't talking about the Russians.

A surprising new study shows that four big carnivores (brown bear, lynx, wolverine and wolf) are doing quite nicely in Europe, thank you very much, even without the wilderness protection that benefits some large predators in the United States.

“We find that in Europe we have twice as many wolves as in the lower 48 (American) states, on half the land area, with two times the human population density,” says Guillaume Chapron of the Swedish University of Agricultural Sciences, the corresponding author of the new study.

In Europe, as in North America, large carnivores face ingrained hostility. It's not just their ferocity, but also their need for a large range and lots of meat that makes them natural competitors. ...

Stratfor via Real Clear Politics

Russia Seen from Within

by George Friedman

Last week I flew into Moscow, arriving at 4:30 p.m. on Dec. 8. It gets dark in Moscow around that time, and the sun doesn't rise until about 10 a.m. at this time of the year - the so-called Black Days versus White Nights. For anyone used to life closer to the equator, this is unsettling. It is the first sign that you are not only in a foreign country, which I am used to, but also in a foreign environment. Yet as we drove toward downtown Moscow, well over an hour away, the traffic, the road work, were all commonplace. Moscow has three airports, and we flew into the farthest one from downtown, Domodedovo - the primary international airport. There is endless renovation going on in Moscow, and while it holds up traffic, it indicates that prosperity continues, at least in the capital.

Our host met us and we quickly went to work getting a sense of each other and talking about the events of the day. He had spent a great deal of time in the United States and was far more familiar with the nuances of American life than I was with Russian. In that he was the perfect host, translating his country to me, always with the spin of a Russian patriot, which he surely was. We talked as we drove into Moscow, managing to dive deep into the subject.

From him, and from conversations with Russian experts on most of the regions of the world - students at the Institute of International Relations - and with a handful of what I took to be ordinary citizens (not employed by government agencies engaged in managing Russia's foreign and economic affairs), I gained a sense of Russia's concerns. The concerns are what you might expect. The emphasis and order of those concerns were not.

Russians' Economic Expectations

I thought the economic problems of Russia would be foremost on people's minds. The plunge of the ruble, the decline in oil prices, a general slowdown in the economy and the effect of Western sanctions all appear in the West to be hammering the Russian economy. Yet this was not the conversation I was having. The decline in the ruble has affected foreign travel plans, but the public has only recently begun feeling the real impact of these factors, particularly through inflation.

But there was another reason given for the relative calm over the financial situation, and it came not only from government officials but also from private individuals and should be considered very seriously. The Russians pointed out that economic shambles was the norm for Russia, and

prosperity the exception. There is always the expectation that prosperity will end and the normal constrictions of Russian poverty return.

The Russians suffered terribly during the 1990s under Boris Yeltsin but also under previous governments stretching back to the czars. In spite of this, several pointed out, they had won the wars they needed to win and had managed to live lives worth living. The golden age of the previous 10 years was coming to an end. That was to be expected, and it would be endured. The government officials meant this as a warning, and I do not think it was a bluff. The pivot of the conversation was about sanctions, and the intent was to show that they would not cause Russia to change its policy toward Ukraine.

Russians' strength is that they can endure things that would break other nations. It was also pointed out that they tend to support the government regardless of competence when Russia feels threatened. Therefore, the Russians argued, no one should expect that sanctions, no matter how harsh, would cause Moscow to capitulate. Instead the Russians would respond with their own sanctions, which were not specified but which I assume would mean seizing the assets of Western companies in Russia and curtailing agricultural imports from Europe. There was no talk of cutting off natural gas supplies to Europe.

If this is so, then the Americans and Europeans are deluding themselves on the effects of sanctions. In general, I personally have little confidence in the use of sanctions. That being said, the Russians gave me another prism to look through. Sanctions reflect European and American thresholds of pain. They are designed to cause pain that the West could not withstand. Applied to others, the effects may vary.

My sense is that the Russians were serious. It would explain why the increased sanctions, plus oil price drops, economic downturns and the rest simply have not caused the erosion of confidence that would be expected. Reliable polling numbers show that President Vladimir Putin is still enormously popular. Whether he remains popular as the decline sets in, and whether the elite being hurt financially are equally sanguine, is another matter. But for me the most important lesson I might have learned in Russia - "might" being the operative term - is that Russians don't respond to economic pressure as Westerners do, and that the idea made famous in a presidential campaign slogan, "It's the economy, stupid," may not apply the same way in Russia.

The Ukrainian Issue

There was much more toughness on Ukraine. There is acceptance that events in Ukraine were a reversal for Russia and resentment that the Obama administration mounted what Russians regard as a propaganda campaign to try to make it appear that Russia was the aggressor. Two points were regularly made. The first was that Crimea was historically part of Russia and that it was already dominated by the Russian military under treaty. There was no invasion but merely the assertion of reality. Second, there was heated insistence that eastern Ukraine is populated by Russians and that as in other countries, those Russians must be given a high degree of autonomy. One scholar pointed to the Canadian model and Quebec to show that the West normally has no problem with regional autonomy for ethnically different regions but is shocked that the Russians might want to practice a form of regionalism commonplace in the West.

The case of Kosovo is extremely important to the Russians both because they feel that their wishes were disregarded there and because it set a precedent. Years after the fall of the Serbian government that had threatened the Albanians in Kosovo, the West granted Kosovo independence. The Russians argued that the borders were redrawn although no danger to Kosovo existed. Russia didn't want it to happen, but the West did it because it could. In the Russian view,

having redrawn the map of Serbia, the West has no right to object to redrawing the map of Ukraine.

I try not to be drawn into matters of right and wrong, not because I don't believe there is a difference but because history is rarely decided by moral principles. I have understood the Russians' view of Ukraine as a necessary strategic buffer and the idea that without it they would face a significant threat, if not now, then someday. They point to Napoleon and Hitler as examples of enemies defeated by depth.

I tried to provide a strategic American perspective. The United States has spent the past century pursuing a single objective: avoiding the rise of any single hegemon that might be able to exploit Western European technology and capital and Russian resources and manpower. The United States intervened in World War I in 1917 to block German hegemony, and again in World War II. In the Cold War the goal was to prevent Russian hegemony. U.S. strategic policy has been consistent for a century.

The United States has been conditioned to be cautious of any rising hegemon. In this case the fear of a resurgent Russia is a recollection of the Cold War, but not an unreasonable one. As some pointed out to me, economic weakness has rarely meant military weakness or political disunity. I agreed with them on this and pointed out that this is precisely why the United States has a legitimate fear of Russia in Ukraine. If Russia manages to reassert its power in Ukraine, then what will come next? Russia has military and political power that could begin to impinge on Europe. Therefore, it is not irrational for the United States, and at least some European countries, to want to assert their power in Ukraine.

When I laid out this argument to a very senior official from the Russian Foreign Ministry, he basically said he had no idea what I was trying to say. While I think he fully understood the geopolitical imperatives guiding Russia in Ukraine, to him the centurylong imperatives guiding the United States are far too vast to apply to the Ukrainian issue. It is not a question of him only seeing his side of the issue. Rather, it is that for Russia, Ukraine is an immediate issue, and the picture I draw of American strategy is so abstract that it doesn't seem to connect with the immediate reality. There is an automatic American response to what it sees as Russian assertiveness; however, the Russians feel they have been far from offensive and have been on the defense. For the official, American fears of Russian hegemony were simply too far-fetched to contemplate.

In other gatherings, with the senior staff of the Institute of International Relations, I tried a different tack, trying to explain that the Russians had embarrassed U.S. President Barack Obama in Syria. Obama had not wanted to attack when poison gas was used in Syria because it was militarily difficult and because if he toppled Syrian President Bashar al Assad, it would leave Sunni jihadists in charge of the country. The United States and Russia had identical interests, I asserted, and the Russian attempt to embarrass the president by making it appear that Putin had forced him to back down triggered the U.S. response in Ukraine. Frankly, I thought my geopolitical explanation was a lot more coherent than this argument, but I tried it out. The discussion was over lunch, but my time was spent explaining and arguing, not eating. I found that I could hold my own geopolitically but that they had mastered the intricacies of the Obama administration in ways I never will.

The Future for Russia and the West

The more important question was what will come next. The obvious question is whether the Ukrainian crisis will spread to the Baltics, Moldova or the Caucasus. I raised this with the Foreign Ministry official. He was emphatic, making the point several times that this crisis would not spread. I took that to mean that there would be no Russian riots in the Baltics, no unrest in Moldova and no

military action in the Caucasus. I think he was sincere. The Russians are stretched as it is. They must deal with Ukraine, and they must cope with the existing sanctions, however much they can endure economic problems. The West has the resources to deal with multiple crises. Russia needs to contain this crisis in Ukraine.

The Russians will settle for a degree of autonomy for Russians within parts of eastern Ukraine. How much autonomy, I do not know. They need a significant gesture to protect their interests and to affirm their significance. Their point that regional autonomy exists in many countries is persuasive. But history is about power, and the West is using its power to press Russia hard. But obviously, nothing is more dangerous than wounding a bear. Killing him is better, but killing Russia has not proved easy.

I came away with two senses. One was that Putin was more secure than I thought. In the scheme of things, that does not mean much. Presidents come and go. But it is a reminder that things that would bring down a Western leader may leave a Russian leader untouched. Second, the Russians do not plan a campaign of aggression. Here I am more troubled - not because they want to invade anyone, but because nations frequently are not aware of what is about to happen, and they might react in ways that will surprise them. That is the most dangerous thing about the situation. It is not what is intended, which seems genuinely benign. What is dangerous is the action that is unanticipated, both by others and by Russia.

At the same time, my general analysis remains intact. Whatever Russia might do elsewhere, Ukraine is of fundamental strategic importance to Russia. Even if the east received a degree of autonomy, Russia would remain deeply concerned about the relationship of the rest of Ukraine to the West. As difficult as this is for Westerners to fathom, Russian history is a tale of buffers. Buffer states save Russia from Western invaders. Russia wants an arrangement that leaves Ukraine at least neutral.

For the United States, any rising power in Eurasia triggers an automatic response born of a century of history. As difficult as it is for Russians to understand, nearly half a century of a Cold War left the United States hypersensitive to the possible re-emergence of Russia. The United States spent the past century blocking the unification of Europe under a single, hostile power. What Russia intends and what America fears are very different things.

The United States and Europe have trouble understanding Russia's fears. Russia has trouble understanding particularly American fears. The fears of both are real and legitimate. This is not a matter of misunderstanding between countries but of incompatible imperatives. All of the good will in the world - and there is precious little of that - cannot solve the problem of two major countries that are compelled to protect their interests and in doing so must make the other feel threatened. I learned much in my visit. I did not learn how to solve this problem, save that at the very least each must understand the fears of the other, even if they can't calm them.

The Corner of National Review

[Putin on Parade: U.S. 'Legalized' Torture After 9/11](#)

by John Fund

Vladimir Putin was his usual overbearing self today at his annual three-hour news conference in Moscow, swatting away questions he didn't like and hyperventilating against the West to excuse his economic failures. However, there was a tense moment when a prominent anti-Putin activist

and television journalist, Ksenia Sobchak, asked the Russian president whether he was fomenting hatred against others among Russians using state television propaganda. She specifically asked him why the state media hasn't retracted a July story it ran falsely accusing the Ukrainian military of torturing and crucifying a three-year-old Russian boy in a public square.

"Why did you give her the floor?" Putin snapped at the moderator. He then proceeded to ignore the question. Ms. Sobchak clearly gets under his skin. One reason may be that she is the daughter of the late Anatoly Sobchak, who as mayor of St. Petersburg gave a young Vladimir Putin his start up the political ladder in the 1990s. He is clearly unwilling to jail Sobchak, but at the same time doesn't want to give her legitimacy.

The connection between the late Sobchak and Putin continues to haunt Russian politics. Just last week, a fierce Putin critic named Yury Shutov died of a heart attack at a Siberian prison. In 1998, Shutov accused Putin of blackmailing Anatoly Sobchak to secure his job in the mayor's office. In 2006 Shutov was sentenced to life in jail for organizing murders of local businessmen, a charge he vehemently denied.

In response to another question on Ukraine, Putin denied the presence of Russian mercenaries in that country because he claimed that any Russians "voluntarily" taking part in the conflict there weren't be being paid — so they couldn't be mercenaries.

On the issue of his control of the Russian media, Putin denied any "campaign" was being conducted against his opponents in the Russian media. Instead he turned the question around, claiming the West was persecuting allies of Russia. His prime local example was Latvia's ban on some pro-Kremlin pop stars who often use offensive lyrics. He then attacked the U.S. for "legalizing" torture of its opponents after the 9/11 attacks.

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Huffington Post

Russians Rush To Stores As Country Fears Bank Run

by Nataliya Vasilyeva

MOSCOW (AP) — Russian consumers flocked to the stores Wednesday, frantically buying a range of big-ticket items to pre-empt the price rises kicked off by the staggering fall in the value of the ruble in recent days.

As the Russian authorities announced a series of measures to ease the pressure on the ruble, which slid 15 percent in the previous two days and raised fears of a bank run, many Russians were buying cars and home appliances — in some cases in record numbers — before prices for these imported goods shoot higher.

The Swedish furniture giant IKEA already warned Russian consumers that its prices will rise Thursday, which resulted in weekend-like crowds at a Moscow store on a Wednesday afternoon. Shops selling a broad range of items were reporting record sales — some have even suspended operations, unsure of how far the ruble will sink. Apple, for one, has halted all online sales in Russia.

"This is a very dangerous situation. We are just a few days away from a full-blown run on the banks," Russia's leading business daily Vedomosti said in an editorial Wednesday. "If one does not calm down the currency market right now, the banking system will need robust emergency care."

Alyona Korsuntseva, a shopper at IKEA in her 30s, said the current jitters surrounding the Russian economy reminded her of the 1998 Russian crisis when the ruble tumbled following the government's default on sovereign bonds.

"What's pressuring us is the fact that many people (back then) rushed to withdraw money from bank cards, accounts," she says. "We want to safeguard ourselves so that things wouldn't be as bad they were back then."

Consumers are buying durable goods as they are seen as better investments than most Russian stocks. And, an overwhelming majority of Russians cannot afford to buy land or real estate.

Earlier this week, the ruble suffered catastrophic losses as traders continued to fret over the combined impact of low oil prices and Western sanctions over Russia's involvement in Ukraine's crisis.

Some signs emerged Wednesday that the ruble's freefall may have come to an end and the currency could recover, at least in the short-term. After posting fresh losses early Wednesday, the ruble rallied more than 10 percent to around 60 per dollar at 9 p.m. Moscow time (1800 GMT, 1 p.m. EST).

Analysts credited a series of reassuring statements from the Central Bank and the government for the improving ruble backdrop.

First, Deputy Finance Minister Alexei Moiseyev said the government will sell foreign currency from its own reserves "as much as necessary and as long as necessary."

Then the Central Bank announced an expanded series of measures to help calm the situation such as giving banks more freedom to increase interest rates on retail deposits and offering them more flexibility to deal with the ruble's depreciation on their balance sheets.

Neil Shearing, chief emerging markets economist at London-based Capital Economics, said the "authorities have at last started to develop a strategy for containing the effects of the ruble's collapse on the banking system and wider economy."

Tom Levinson, chief foreign exchange and rates strategist at Sberbank CIB, agreed, saying the Central Bank could ease pressure on the ruble, even without massively spending its reserves.

"If they can provide measures that help secure the banking sector, provide confidence to investors and also to the population as a whole ... that could be the first toward stabilizing the situation," Levinson said in an interview. "Long way to go, but we are seeing some positive steps at last."

The ruble's tailspin continued Tuesday, despite a surprise move by Russia's Central Bank to raise its benchmark interest rate to 17 percent from 10.5 percent — a move aimed to make it more attractive for currency traders to hold onto their rubles.

Should the current attempts to shore up the ruble fail, then the Russian authorities could be imposing capital controls.

However, Russia's Economic Development Minister Alexei Ulyukayev has denied the government is considering doing so. While easing pressure on the ruble, the move would shatter Russia's already tarnished reputation to investors.

Russian officials, meanwhile, have sought to project a message of confidence on state television, dwelling on the advantages of ruble devaluation, such as a boost to domestic manufacturing.

There are fears that the ruble could come under further pressure this week as President Barack Obama is expected to sign legislation authorizing new economic sanctions against Russia.

Whatever happens with the ruble, the Russian economy is set to shrink next year by 0.8 percent, even if oil prices stay above \$80 per barrel. If oil prices stay at the current level of around \$60, the Central Bank said the Russian economy could contract by nearly 5 percent.

The German government's coordinator for relations with Russia, Gernot Eler, said the economic crisis in Russia was largely the result of the drop in oil prices, not the sanctions imposed by the West.

"It's an illusion to think that if the sanctions were to fall away tomorrow, the Russian economy would suddenly be all right again," Eler told rbb-Inforadio on Wednesday.

Vladimir Kondrashov and Vladimir Isachenkov in Moscow and Frank Jordans in Berlin contributed to this report.

Bloomberg

Russia's Problems Are Everyone's Problems

by Megan McArdle

"Cyprus with nukes." That's how someone, maybe me, referred to Russia in an IM conversation this morning. It's not really a fair comparison; Russia is a vast country loaded with natural resources, not a tiny island banking haven. But it does express a very real fear: that the world is about to experience a major financial crisis in a country that seems to deal with its internal troubles by slicing off bits of neighboring countries.

The ruble is plunging, for reasons that have roots in the falling price of oil. Yet the trouble now runs deeper than that, so the ruble's problems will continue even when the price of oil recovers a bit. As our own Leonid Bershidsky explains, markets are no longer just worried about oil prices, but also about the Russian Central Bank's apparent decision to bail out a suffering oil company by printing money:

Central Bank technocrats have been worried that the government would force them to print rubles for the direct funding of industries, primarily the military industrial complex and the state companies run by Putin friends. The Central Bank's obvious complicity in the Rosneft deal means the pressure is on, and the Central Bank is caving. It cannot prevent the funds loaned to corporations in special deals such as Rosneft's from destabilizing the currency and fueling market panic. Besides, the Rosneft deal sends a clear signal to market players that some of them are

more equal than the others. That is a sure way to foster distrust and send the ruble into a speculative tailspin regardless of what happens to the oil price.

The central bank tried to make up for this action by ratcheting interest rates up to 17 percent. It hasn't worked; the ruble continued its plunge this morning. This tells us many things, all bad: that the central bank is not strong enough to resist President Vladimir Putin; that Putin is desperate enough to print money to cover Rosneft's problems; that capital controls may well be in the offing (so oligarchs and traders are eager to get their money out of the country); that Russia's financial situation is spinning out of control.

If that's not terrifying enough, consider that Russia is not the only country headed for problems. The Middle East is full of countries that need a high oil price to protect their economies. Take Iraq. Three years ago, I wrote:

But at least the oil is still flowing, and high prices help the government make up for shortcomings elsewhere. According to Frank Gunter, the economy needs to create about 250,000 net new jobs every year in order to absorb the young people coming of age. "A good year," he says, "is a year when oil prices are high, which allows the government to create those 250,000 jobs." And a bad year? That was 2006, when maintenance and capital investment were slashed. "You had Iraqi ministry employees going to work and sitting in the dark because there was no money for lightbulbs ... but no one was fired, and no pensions were cut."

Half of the labor force works for the national government, either directly or indirectly, and another 20 percent or so is unemployed. "Iraqis believe that the only real job is a government job," Gunter says. It "pays more, has benefits, you can't be fired, and the work intensity is lower than in the private sector." Gunter estimates that if the price of oil falls below \$40 a barrel, the government is in serious trouble: below that price, it will not have enough revenue to pay salaries and pensions, even if no services are provided at all.

Oil prices were hovering around \$110 a barrel back then. Now they're at \$55. And as a bond trader noted to me this morning, "Oil is lower, market concludes demand must be weak. Commodities guys look at equities ... and see weakness, bid oil lower. Equity guys see oil is lower ... hmm. Must be weak demand. Wash rinse repeat."

"If this rate of sell-off is sustained," said trader continued wryly, "oil will be free by mid-January."

Outside the Middle East, Venezuela is already well into a long economic crisis. The Hugo Chavez regime diverted investment funds from the state-owned oil company into social spending, which caused production to decline. That was a workable trade-off when prices were rising, but now that they're falling fast, so is Venezuela's economy, along with political stability.

Last week, I noted that this meant the risk of serious geopolitical repercussions. (The last time oil prices experienced this kind of run-up and decline, the Soviet Union fell.) In the modern global economy, it also means the risk of financial crisis, as problems in Russia and other oil-rich nations reverberate outward through our tightly interlaced networks of finance and trade. China is already fragile, the euro zone is struggling to hold everything together, and while U.S. growth finally seems to be back on track, we will not be immune if the rest of the world is reeling.

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works. Because if not, the rest of us may be using our newly cheaper gasoline to fuel up for a very bumpy ride.

The Why Files

Europe: Return of the carnivores!

by David J. Tenenbaum



The Eurasian lynx is Europe's largest cat. The new study finds them abundant in Finland, Sweden and Norway, the Baltics, Balkans and Romania.

A surprising new study shows that four big carnivores (brown bear, lynx, wolverine and wolf) are doing quite nicely in Europe, thank you very much, even without the wilderness protection that benefits some large predators in the United States.

"We find that in Europe we have twice as many wolves as in the lower 48 (American) states, on half the land area, with two times the human population density," says Guillaume Chapron of the Swedish University of Agricultural Sciences, the corresponding author of the new study.

In Europe, as in North America, large carnivores face ingrained hostility. It's not just their ferocity, but also their need for a large range and lots of meat that makes them natural competitors.



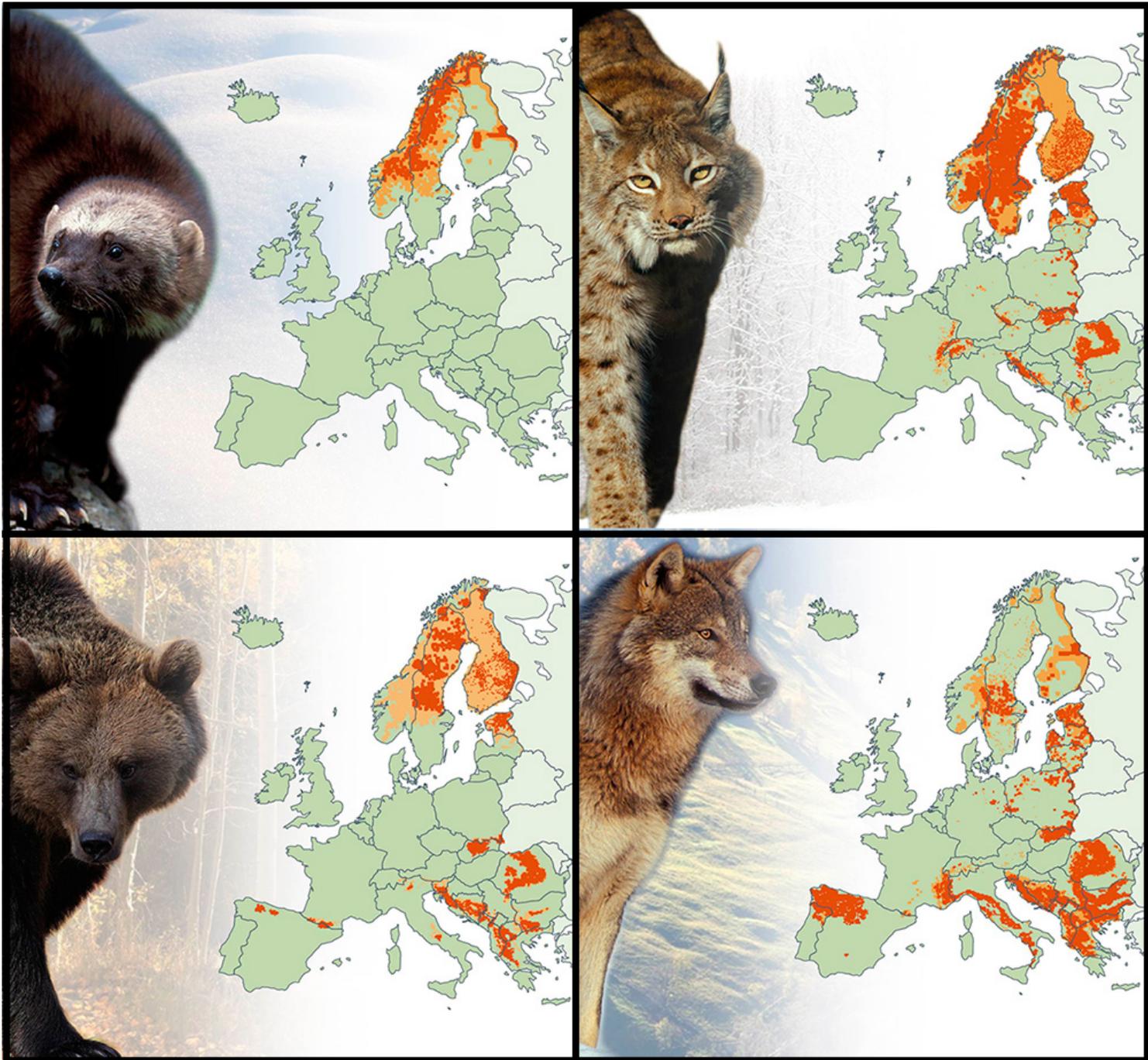
Wolf pups photographed in front of their den in western Poland.

Add it up, and both Europe and the United States had severe losses of carnivore populations by the 1960s.

Wilderness reserves and national parks in North America are intended to separate animals from people, but the new study points to other ways to ensure predator survival. “If we had followed the North American model of wilderness in Europe, we would not have predators, because in Europe everything is developed, we have roads everywhere,” Chapron says.

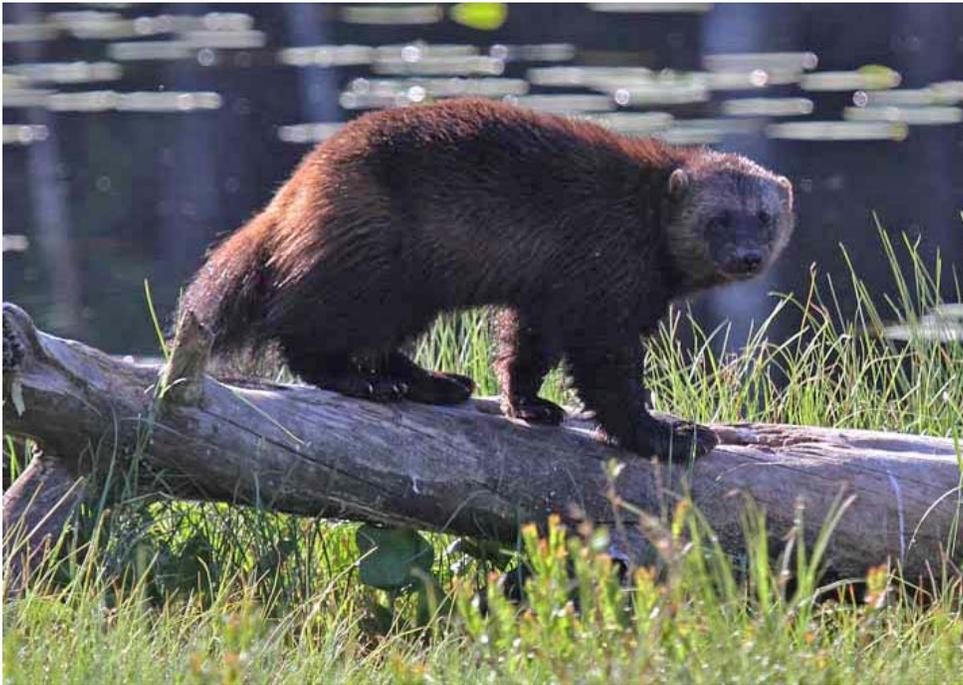
The study, “shows that this coexistence, this ‘land sharing,’ does not just work in a particular context, it is working on a continental scale,” says Chapron. “It’s possible to have predators living in a human-dominated landscape, and this is unexpected.”

Predator stomping grounds



Location of bear, wolf, lynx and wolverine populations across Europe between 2010 and 2012; permanent populations shown in dark orange, and occasional sightings shown in light orange.

The 1970s: A turnaround



Wolverines are adapted to living in the snow. This one is near a pond in Finland.

The same environmental awareness that sparked the Endangered Species Act (ESA) in the United States in the 1970s also affected Europe, Chapron says. "In Europe ... we have our own ESA and habitat directives that protect wildlife and wildlife habitat." Member states of the European Union are obligated to restore wildlife populations and habitat, he says. "The willingness of society to have a good relationship with wildlife has been a key reason why this has turned into a success story."



Highly intelligent and cooperative, the wolf pack forms a hunting machine with a large territory.

Of the four predators, the oft-feared wolf has staged the most dramatic recovery, Chapron says. Since the 1950s and '60s, wolves have become more numerous in Finland and Poland, and breeding populations have returned to Sweden, France, Germany and Norway. "The wolf was never deliberately reintroduced in Europe," Chapron says. "The wolf has done all of this naturally."

The territory of European wolves has, on average, 37 people per square kilometer. (That's 103 per square mile, or about the same density as the state of Alabama.) "That clearly shows the wolf can live in places with people; they don't need a totally empty landscape," Chapron says.

Although the findings are encouraging for those who see predators as necessary to a healthy ecosystem, "This coexistence is not a peaceful love story," says Chapron. "With carnivores, there will always be conflicts. They are big, they eat the wrong type of meat, including meat we would like to eat. The goal is not to have no conflict at all, because I don't think that's possible."

