Decline in oil prices puts pressure on major producers

By Liam Conway-Pearson, Monika Hur, & Ben Mandel

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As the world continues to grapple with dramatically lower oil prices, economic and political implications for certain major oil producers are beginning to materialize. Some countries, like Saudi Arabia, the world's largest petroleum exporter, were more prepared for the global downturn than others. Unlike many oil producers, the Saudis are capable of running a government deficit for an extended period of time partly due to extremely large monetary reserves. However, not all oil producers have this luxury, and countries that have a high dependence on oil production have begun to suffer. The countries that have been hit hardest are not only dependent on oil production but suffer from existing political tensions that set the condition for unrest and upheaval.

The global decrease in oil prices has been particularly hard on Venezuela, headed by the left-wing Nicolás Maduro. The effect is particularly threatening as most Venezuelan businesses are owned by the government. Attempts to fix the issue have been largely counterproductive, and prices of many necessities have risen dramatically. For example, a box of condoms costs as much as $755 and can only be purchased after a long wait in line. Many stores now have queues reminiscent of Cold War-era Soviet vignettes for goods as basic as milk.
President Maduro blames the shortages on the private sector hoarding supplies and speculating too much on prices. The solution, in his mind, is to socialize more of them. The socialization of many of Venezuela’s business has, in the eyes of many, created an impenetrable and intractable web of bureaucracy for every imaginable business transaction or maneuver. According to Ismael Perez, the president of the Venezuelan Chamber of Industries, the officials heading these bureaucracies often have little or no business experience.

Amid the crisis, relations between Venezuela and the United States remain tense (former strongman Hugo Chávez famously changed Venezuela’s time zone by half an hour to ensure it was on different time from America). Recent comments from Mr Maduro range from accusations of a planned coup, orchestrated by Joe Biden, to pleas for Barack Obama to adopt a new tone when it comes to Venezuela. The latter is a hint at the recent diplomatic thaw between the US and Cuba, a country historically intertwined with like-minded Venezuelan leftists.

The International Energy Agency expects crude oil prices to average $55 per barrel throughout the rest of 2015. Along with Venezuela, this decline in oil prices is a critical blow to Russia, a major oil producer which derives much revenue and, equally importantly, geopolitical influence, from its oil reserves. The agency reported that Russia will be the “biggest loser” from the oil price drop. These disadvantageous prices come at a time of international sanctions and currency depreciation for Russia. US shale oil output is also expected to continue to grow until 2020, which is not promising for future Russian oil profits as it presents more competition.

As a result of the oil price decline, Russia’s influence in Eurasia will likely wane. Russia previously was able to utilize the capital from its oil to spend on its defense budget. Oil was also a source of soft power for Russia, as a tool to support ally governments in the region through discounted gas shipments and direct financial support in place likes Belarus, Armenia, and Ukraine. With lower oil prices, Russia is not only poorer but also has less leverage over its neighbors in the region. This weakened stance will make it difficult for Russia to continue to pursue its international policies. As the war in Ukraine drags on, Russians are certainly feeling the combined pressure of international resistance and economic distress.

No country has gone over the theoretical cliff due to lower oil prices. Yet, without a dramatic change in the equilibrium price, Venezuela and Russia remain the most likely candidates for long-term economic collapse and political upheaval. Both countries offer striking examples of the potential negative outcomes of overreliance on a single commodity. It is unclear whether these countries’ political authority will be enough to protect against the inevitable consequences of economic collapse that remain imminent if global oil prices stay low.
References

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