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From Venezuela to Iraq to Russia, Oil Price Drops Raise Fears of Unrest

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Members of an Iraqi oil police force guarding a field near Basra last week. Iraqis have protested shortages of government services.

Oil, the lifeblood of many countries that produce and sell it, appears to be rapidly turning into an ever-cheaper economic curse.

A year ago, the international price per barrel of oil was about $103. By Monday, the price was about $42, roughly 6 percent lower than on Friday.

In oil-endowed Iraq, where an Islamic State insurgency and fractious sectarian politics are growing threats, a new source of instability erupted this month with violent protests over the government's failure to provide reliable electricity and explain what has been done with all the promised petroleum money. In Russia, a leading oil producer, consumers are now paying far more for imports, largely because of their currency's plummeting value. In Nigeria and Venezuela, which rely almost completely on oil exports, fears of unrest and economic instability are building. In Ecuador, where oil revenue has fallen by nearly half since last year, tens of thousands of demonstrators pour into the streets every week, angered by the government's economic policies.

Even in wealthy Saudi Arabia, where the ruling family spends oil money lavishly to preserve its legitimacy, the government has been burning through roughly $10 billion a month in foreign exchange holdings to help pay expenses, and it is borrowing in the financial markets for the first time since 2007. Other Arab countries in the Persian Gulf that are dependent on oil exports, including Kuwait, Oman and Bahrain, are facing fiscal deficits for the first time in two decades.

While the price has been declining for months, forecasts have always been hedged with the assumption that oil would eventually stabilize or at least not stay low for long. But new anxieties about frailties in China, the world's most voracious consumer of energy, have raised fears that the price of oil, now 30 percent lower than it was just a few months ago, could remain depressed far longer than even the most pessimistic projections, and do even deeper damage to oil exporters.

"The pain is very hard for these countries," said René G. Ortiz, former secretary general of the Organization of Petroleum Exporting Countries and former energy minister of Ecuador. "These countries dreamed that these low prices would be very temporary."

Mr. Ortiz estimated that all major oil exporting countries had lost a total of $1 trillion in oil sales because of the price decline over the last year.

"The apparent weakness in the Chinese economy is radiating out into the world," said Daniel Yergin, the vice chairman of IHS, a leading provider of market information, and the author of two seminal books on the history of the oil industry, "The Prize" and "The Quest."

"An awful lot of producers who enjoyed good times were more dependent on Chinese economic growth than they recognized," Mr. Yergin said. "This is an oil shock."

Although the price drop has most directly hurt oil exporters, it also may signal a new period of global economic fragility that could hurt all countries — an anxiety that already has been evident in the gyrating stock markets.

The price drop also has become an indirect element in the course of Syria's civil war and other points of global tension. Countries that once could use their oil wealth as leverage, like Russia, Iran and Saudi Arabia, may no longer have as much influence, some political analysts said. Iran, which once asserted it could withstand the antinuclear embargo of its oil by the West, appeared to have rethought that calculation in reaching an agreement on its nuclear activities last month.

Of course, lower oil prices confer economic benefits, too. The average American household, for instance, buys 1,200 gallons of gasoline every year. And gasoline, on average, has sold for most of this year by roughly a dollar a gallon less than in 2014.

But even while lower oil prices stimulate economies of consuming countries, a protracted decline carries many unanticipated consequences — starting with the economic weakness in developing countries that buy increasing amounts of goods from the United States and others in the industrialized world.

A supply glut has been evident for some time, driven partly by a vast increase in Saudi production and a growing energy self-sufficiency in the United States, which was once heavily reliant on Middle East oil.

Saudi Arabia not only is producing a record amount, but also is increasing the number of rigs drilling for future production. And its Gulf allies, the United Arab Emirates and Kuwait, are following suit. Even with the turmoil wrought by the Islamic State, Iraq's production has jumped nearly 20 percent since the beginning of the year.

The surge in production may seem counterintuitive, since lower prices can cause self-inflicted economic wounds and potentially incite more political and social trouble. But all the exporters in the Middle East are struggling with each other to protect Asian markets, now that the United States is using much less of their oil.

Government leaders and representatives from Europe expressed optimism about the state of China's economic health as the country's stock market plunged on Monday.

The Gulf states, said Sadad I. Al-Husseini, former executive vice president of the Saudi Aramco oil company, "don't want to take on the role of oil price regulators because the market is far too big and too political for them to manage it."

Had these producers curtailed their production late last year, he said, "a flood of new oil supplies from the U.S., Canada, the deep offshore and other basins would have continued to undermine the oil markets, and prices would have collapsed to where they are now in any case."

The global glut is likely to worsen if the nuclear deal with Iran is approved, potentially releasing as much as one million more barrels onto the 94-million-barrel-a-day global market in a year or so.

Iran's oil minister, Bijan Namdar Zanganeh, has made no secret about his country's intentions. "We will be raising our oil production at any cost, and we have no other alternative," he was quoted Sunday in Iran's state-run news media as saying.

The big change in recent years has been the surge of United States oil production, adding more than four million barrels a day to global supplies. But in recent months the oversupply has been driven primarily by the Saudis, who have flooded the market in what economists regard as a deliberate attempt to drive down the price so that other high-cost producers can no longer compete — most notably the Americans.

Still, production in the United States has not declined as much as foreseen by the Saudis, who thought the price of oil would stabilize at about $50 a barrel. Now it may be headed to $30, the lowest level since the 2008 global economic recession.

The Saudis, the most important member of OPEC, have resisted calls by other members to reduce output. The result is that nearly all OPEC members, who together control much less of the global market than they once did, are pumping more oil.

"We are witnessing competition between member states over market share, and most of these countries are dependent on oil as a primary source of income," said Luay Al-Khatteeb, a nonresident fellow in foreign policy at the Brookings Doha Center. If prices do not recover to the $60 a barrel level, he said, "and countries in the Arab region continue to rely on oil revenue heavily, we could see decades of decline."

David L. Goldwyn, who was the State Department special envoy and coordinator for international energy affairs in the first Obama administration, said that if the Brent global oil benchmark price stays below $45 a barrel, that is "a red flag for stability issues across the oil producing world."

"The hemorrhaging of government budgets reliant on oil will force dramatic cuts in spending or dangerous increases in borrowing, if not both," Mr. Goldwyn said. "The countries without significant foreign exchange reserves are most at risk, and they include Nigeria, Angola, Algeria, Venezuela and Iraq. The countries which need to sustain investment to maintain political legitimacy need to be worried, and that's Brazil, Russia and even Iran."

Meghan L. O'Sullivan, director of the Geopolitics of Energy program at Harvard's Kennedy School, said she was most immediately concerned about the impact of extended low oil prices on Iraq.

"Not only is fighting ISIS an expensive endeavor, but many of the political deals that need to be done to keep different groups supportive of the Iraqi government require money to sustain," she said.

But Ms. O’Sullivan expressed a longer-term worry about possible miscalculations by Saudi Arabia, on both the duration and magnitude of the oil price drop.

“With a burgeoning population looking for jobs, education and health care every day,” she said, “the expensive social contract between the royal family and Saudi citizens will get more difficult, and eventually impossible, to sustain if oil prices do not recover.”