Washington and the geopolitical benefits of plunging oil prices: real but limited

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The past six months have witnessed an extraordinary plunge in global oil prices. A barrel of Brent Crude now hovers below $50, a price roughly half of what it was in the late spring and early summer of 2014. That change has major economic implications for producers and consumers around the world. Consumers, as well as companies that must utilize large quantities of fossil fuels, understandably love lower prices. For example, the average American family of four currently enjoys approximately $35 per month in savings from reduced energy costs - money that can be used for other purposes.

The impact on oil suppliers is more complex. Low-cost producers, most notably Saudi Arabia, can still function profitably at the new price range, but higher-cost producers find their profit margins severely squeezed or even eliminated. US foreign policy officials are not displeased by that development. Although some domestic oil companies find themselves under pressure, the primary impact is on such foreign producers as Russia, Iran and Venezuela. Washington is on bad terms with the governments of those countries and is not unhappy to see their economies come under increased pressure, creating possible political problems for incumbent anti-US regimes.

Indeed, the United States appears to see potential geopolitical gains in all three cases. Those beleaguered oil-producing states also sense that US officials are pleased with the current pricing environment, and some leaders even suspect that Washington engineered the precipitous plunge in prices for geopolitical reasons. Venezuelan President Nicolás Maduro explicitly charged that the Obama administration is attempting to destroy oil states that won't accept US domination of their foreign and social policies.

Such a crude conspiracy theory is not supported by evidence. Two major factors led to the sharp decline in prices. One was a significant change in both global supply and demand trends. The past decade of high oil prices brought a surge of new sources on line, including the emergence of robust shale oil production in the United States. That development peaked in 2013 and early 2014, just as several rapidly expanding economies, especially those of China and India, experienced a marked slowing of their growth. Conditions were ripe for an oversupply of oil and a resulting price correction.

The other key factor was a Middle East struggle for political power between Saudi Arabia and its allies on one side and Iran and its allies on the other. Policymakers in Riyadh had a tempting reason to tolerate, or even encourage, lower oil prices that would weaken the power of Iran, a less efficient producer that was already experiencing economic problems as a result of Western sanctions over the issue of Tehran's nuclear program. It is no coincidence that as oil prices declined, Iran repeatedly urged members of OPEC to cut production in an effort to stem the decline, while Saudi Arabia refused to approve that strategy.

Although there is no hard evidence that Washington explicitly encouraged Riyadh's recalcitrance, Saudi policy benefits US diplomatic objectives with respect to Iran. Obama administration officials believe that, over the past year, Tehran has finally been negotiating in a serious fashion primarily because the Iranian economy is feeling the effects of international sanctions. Depressed oil prices add to the economic pain and, according to the assumptions of US leaders, may make Tehran even more cooperative.

There are other perceived geopolitical benefits to the United States from the Saudi-led campaign to drive down oil prices. Venezuela's already substantial economic woes have grown worse, making that country's populist government a less appealing model to other people in Latin America. Washington's fears about the possibility of a leftist "Bolivarian" revolution sweeping the region, which were prominent during the presidency of Maduro's predecessor, Hugo Chávez, are receding rapidly. Indeed, there are increased signs that Maduro's hold on power may be slipping.

And Washington is especially pleased about the pressure that lower oil prices are putting on Vladimir Putin's government. Although Western, especially European Union, sanctions imposed after Russia's annexation of Crimea account for some of Russia's economic distress, the oil price plunge appears to have been a far more important factor. Among other effects, the value of the Ruble has shrunk more than 50% in the past few months. As in the case of US policy toward Iran, US officials hope that the financial and economic discomfort will compel Putin to make major foreign policy concessions, if not capitulate on key issues, especially its relations with Ukraine.

Although developments may validate Washington's expectations with respect to Venezuela, Iran, and Russia, the Obama administration may be overestimating the potential benefits. Throughout history, governments have been willing to make economic sacrifices and watch their populations endure deprivation if the political and strategic stakes were high enough. Tehran's conduct over the past two decades indicates that gaining international acceptance of at least some Iranian rights with respect to nuclear technology is a high priority for the clerical regime. Increased economic pain as result of depressed oil prices is not likely to alter that calculation.

Moscow is equally unlikely to change course on central policy objectives. It is hard to imagine any Russian government agreeing to relinquish the newly acquired sovereignty over Crimea or to tolerate Ukraine joining NATO. Despite the ongoing financial and economic turmoil, those elements of Putin's policy remain popular with the Russian people.

The bottom line is that lower oil prices may provide some geopolitical benefits to the United States and its Western allies, but officials should not overestimate those effects and seek to achieve unrealistic gains. Indeed, pressing economically besieged countries such as Iran and Russia too far could backfire, creating unpredictable domestic instability and a surge of hostility toward foreign adversaries. Western leaders need to proceed in a sober, cautious fashion.

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