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# Will crashing oil prices make Russia, Iran and Venezuela more dangerous?

By Rob Nikolewski

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The plummeting price of oil is giving the economies of Russia, Iran and Venezuela a strong smack upside the head.

And while the resulting crises before Russia President Vladimir Putin, the ruling clerics in Iran and the successor to Hugo Chavez in Venezuela won't engender much sympathy from many corners of the world, what those leaders may do in response has a number of foreign policy analysts worried.

"With the oil situation, things can go in a lot of different ways," Stephen Szabo, executive director of the Transatlantic Academy, told Watchdog.org. "The leadership in these countries is not exactly responsive to their people and they could lash out."

All three countries rely on high oil prices to keep their governments afloat.

A recent estimate by the International Monetary Fund, Deutsche Bank and Fitch Rankings reported Russia needs the global oil price at $98 a barrel to cover its budgetary expenditures. Venezuela's "break even" price is about $117.50 a barrel and Iran's is even higher — $130.70.

That's a far cry from where oil opened the new year. Brent crude trading for February delivery was selling on London's ICE Futures exchange at $55.87 a barrel, and experts are expecting further price declines.

"It's especially bad in Venezuela," Steve Hanke, professor of applied economics at Johns Hopkins University and director of the Troubled Currencies Project at the Cato Institute, told Watchdog.org. "They're really in the wringer. It's an immediate problem. It's not a theoretical thing … They have a big fiscal deficit and it will get bigger because of oil."

Venezuela's oil production has been in decline for almost 20 years.

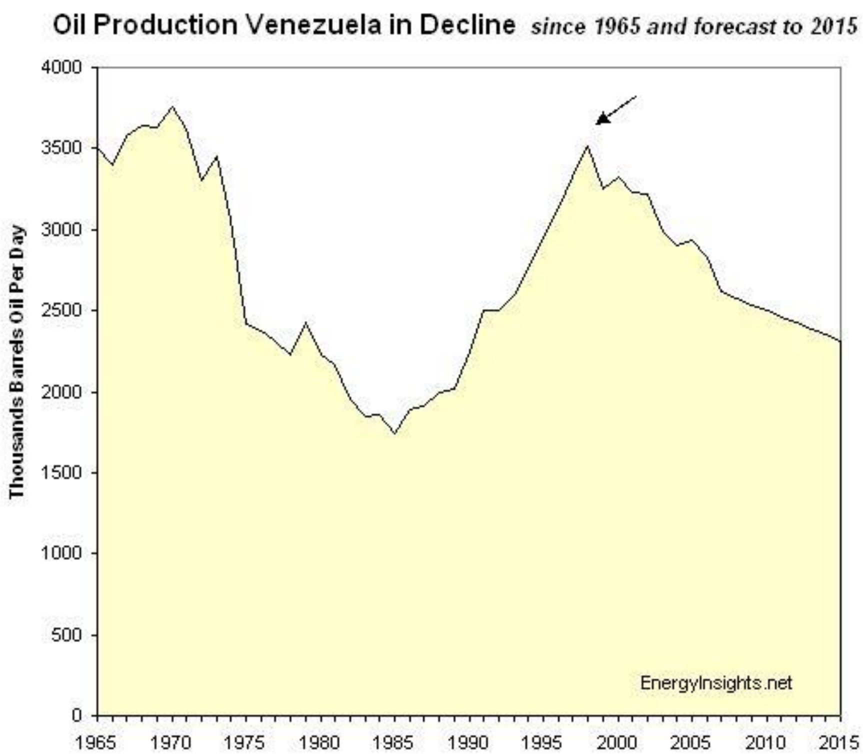


Chart from energyinsights.net

The "thrashed three" aren't getting any help from the powerful Organization of the Petroleum Exporting Countries, known as OPEC.

The cartel in November turned down calls to curb production, thus propping up oil prices, which prompted a member of the Venezuelan delegation to storm out of the meeting in Vienna. On Dec. 22, the oil minister of Saudi Arabia said OPEC doesn't plan to cut production even if prices fall as low as $20 a barrel.

Instead of making the political leadership in Russia, Iran and Venezuela more compliant, there are worries their deteriorating economies may lead the regimes to do the opposite — take greater risks in efforts to hold on to power.

"These are dangerous times," Szabo said. "In some ways, it's more dangerous than it was during the Cold War."

**Russia**

In March 2014, Russia seized Crimea, infuriating Ukraine. That came when oil was slightly higher than $100 a barrel.

Russia isn't a member of OPEC, but in many ways it's a petrostate. Oil and gas account for 52 percent of its federal budget revenue and the cratering price of oil, along with international economic sanctions issued against the Putin government in the wake of the Crimean land grab, has taken its toll.

The Russian ruble has lost about 40 percent of its value, and last week it was announced the Russian economy shrunk in annual terms for the first time in five years.

Putin is blaming the West and the United Sates for his country's woes.

"They will always try to put (the Russian bear) on a chain, and as soon as they succeed in doing so they tear out his fangs and his claws," Putin said at a news conference last month.

Dropping oil prices may have lacerated the Russian economy, but that doesn't necessarily mean Putin will be more accommodating. In fact, some worry it will make him more aggressive.

"He's not going to back down," Szabo said in a telephone interview. "If he backs down, that would make him even more weak politically back home because that would show that he was wrong (by going into Crimea), that he would have to admit he made a mistake, and that just wouldn't work for him."

That has some neighboring countries nervous.

After elections last month in Moldova showed healthy support for pro-European Union parties, Russia's deputy prime minister ominously said via Twitter that Moldova's capital Chisinau should "think seriously whether the right path is chosen to move forward." That's led some to wonder if Putin may look for a re-run of Crimea in Moldova.

Lithuania has its own frayed relationship with Russia, which was made more tense Thursday when the Lithuanian government adopted the Euro as its currency — something widely seen as an attempt by Lithuania to distance itself from Russia.

Faced with a dramatic drop in oil prices and Western sanctions, Putin may run into the arms of China for financial support.

"It is going to move the Russians towards China in a strategic and unchangeable way," Ian Bremmer, president of the Eurasia Group, told CNBC. "That's kind of world-changing, long-term."

**Iran**

In a secretive and repressive society like Iran, it's difficult to say how much the oil crash has hurt its domestic economy. On Dec. 1, the price of bread rose 30 percent, and Iran President Hassan Rouhani presented a "cautious, tight" budget. But, at the same time, the budget calls for defense spending to rise 33 percent.

It's unclear how a wounded Iranian economy influences the development of Iran's nuclear program, which Israel considers an existential threat.

Rouhani has called oil price drop “treachery” and part of a “political conspiracy by certain countries.”

Rouhani didn’t mention any countries by name, but it’s no secret the theocracy in Tehran is at odds with Saudi Arabia.

Though the Saudis deny it, there’s speculation at least part of the decision by OPEC to keep pumping oil is a form of payback at Iran, which has supported Syrian President Bashar al-Assad. The Saudis have supported some of the rebel forces fighting Assad.

What’s more, the Iranian regime is aligned with the Shia branch of Islam while Saudi Arabia is overwhelmingly made up of Sunnis.

Will Iran get back at the Saudis by trying to cause trouble within the Shiite population of Bahrain, which is located next to some of Saudi Arabia’s most productive oil fields? Or will it try to clog the Strait of Hormuz, where 30 percent of all seaborne-traded oil passes?

The Iranian government has a developed a cozy relationship with Russia. Walter Russell Mead, foreign policy professor at Yale and Bard College, said he sees a potential scenario where Putin helps himself as well as some elements of the Iranian regime.

“There is one other alternative that the Dark Genius of the Kremlin may be turning over in his mind,” Mead wrote at The American Interest website. “Is there some way Russian foreign policy could create a Middle East crisis that would drive oil prices back up into the stratosphere? The most obvious way would be to bring about some kind of situation involving the Iranian nuclear talks — perhaps by offering quiet support to Iranian hardliners, increasing the chances that the talks fail. Any kind of serious war scare in the Persian Gulf would be good for Russia’s financial situation.”

**Venezuela**

“Venezuela is running on vapors,” Hanke told Watchdog.org in a telephone interview from his office at Johns Hopkins.

“It’s a strategically planned (oil) war,” said Venezuela’s President Nicolas Maduro, who has tried to further Chavez’s socialist policies.

Maduro accused the United States of flooding the market with shale oil “to try and destroy our revolution and cause an economic collapse.”

That collapse may be coming soon. Oil accounts for a staggering 96 percent of Venezuela’s hard currency revenue, and last week the Maduro government conceded the country is in recession and reported an annual inflation rate of 63.6 percent.

But Hanke said the inflation rate is really at 183 percent.

“It’s already the highest inflation in the world,” said Hanke, who has worked as an economic adviser in Ecuador and Venezuela before Chavez took power. “And it’s going to go higher because they’re going to keep spending money.”

Last Tuesday, Maduro balked at making any changes to the Venezuelan currency, the bolívar — something Hanke said will only make things worse.

“He should get rid of the bolívar and dollarize” the currency, Hanke said. “It would stabilize the thing right away. It would be a total game changer because it would mean there would be some discipline put into the system, and their game of printing money and forking out subsidies right and left would come to an end.”

Maduro is under pressure to continue the generous social programs initiated by Chavez, but with dwindling oil revenue and skyrocketing prices, those programs can’t be funded without going deeper into debt.

“Gas is six cents a gallon there,” Hanke said. “It’s one of the most unstable and most vulnerable” economies in the world.

Even before this most recent drop in oil prices, Venezuela was a dangerous place for critics of Maduro and Chavismo policies.

The Venezuelan government has locked up opposition leader Leopoldo Lopez, prompting four months of protests that left 43 dead. The crumbling economy may lead to Maduro’s ouster and ripple throughout South America.

“There are left-wing factions in Latin America,” Hanke said. “You have other way left-of-center populist leaders and Venezuela can be a kind of ignition switch for spontaneous troubles in these other places … If Venezuela gets shaky, maybe the other ones get shaky too.”