



# Falling Oil Prices: Social and Political Implications for Oil Exporters

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## *Background paper for an ACRPS Workshop*

An academic workshop to be hosted by the Arab Center for Research and Policy Studies will examine the social and political implications of a long-term drop in oil prices on oil producing countries in the Arab region. Scheduled for November 7, 2015, the meeting will also examine how a shift in oil prices will affect approaches to regional crises by certain regional and international actors. World oil prices witnessed steep declines throughout the past year, reaching a low of US\$ 40 per barrel on September 2015, a drop of \$80 year-on-year. While the multiplicity of factors behind this change and their complexity makes the prediction of oil prices in the foreseeable future extremely difficult, most observers agree that oil prices will likely continue to fall.

The consequences of this drop in oil prices vary from one country to the next. While oil consuming countries will benefit economically, politically and socially, oil producing countries will suffer as a result of the decline in their revenues. Countries which stand to lose the most from this turn of events are the major oil producers, for whom oil is the main source of income. This includes the Arab Gulf states, Iraq, Algeria, Iran and Russia.

Projections indicate that the decline in these countries' income will have an adverse effect on their future oil production plans, consequently impacting government expenditures across all other economic sectors. The negative fallout from this decline in government revenues will have severe, negative repercussions for social welfare and public utilities and services plans, such as housing, health, educational services, and electricity projects and provision. In those countries which do not have the financial reserves to deal with the outcome of this crisis, wide-scale protests and disturbances could ensue. Recent events in Iraq hold out a stark example of how such a scenario may play out. Even those with sizeable financial reserves, however, may be compelled to use some of their immense wealth to plug budget deficits or to meet other spending commitments. An example of a country faced with such prospects is Saudi Arabia, which seeks to balance its present-day military intervention in Yemen with its ambitious investment budget, extensive current account spending and the generous social safety net which it provides its citizens.

Oil prices might not return to their pre-crisis level in the near future, and accepting that the factors preventing a return to higher oil prices are at least partly political, continued declines in oil prices could become an effective tool to compel oil producing countries to roll back their foreign commitments and adopt less ambitious foreign policies. This is particularly relevant for countries such as Russia and Iran.



## Questions to be addressed by the workshop

Participants at the workshop will seek to achieve a better understanding of the relevant issues through answering a number of specific questions, including:

- What factors decide the ultimate price of oil?
- What are the reasons behind the most recent sharp drop in oil prices? Can some of these be explained as politically motivated (i.e. forcing the shale oil producers out of the market, or pressuring Iran and Russia to adapt their foreign policies.)
- What will the results of the decline in oil prices be for the rentier economies of the oil producing countries (including Saudi Arabia, Iraq, Algeria, Iran and Russia)? How will the social security networks and other services which these countries provide to their citizens be affected by the drop in oil prices? Could declining oil prices ultimately lead to the eruption of social unrest at a wide-scale level? If so, could such an eventuality be dealt with before hand?
- Will the drop in oil prices have an effect on the foreign policies of Iran and Russia? Did the drop in oil prices play factor in forcing Iran to accept the nuclear agreement with the P5+1 group of nations?
- Will the fall in oil prices force a redrawing of the political landscape within crisis-stricken Arab countries? What impact will it have for the military and political balance of power, specifically in countries such as Syria, Iraq and Yemen?
- For how long can the major oil producing nations tolerate a prolonged period of low oil prices?
- What are the future prospects for oil as an economic commodity with strategic significance on the regional and global arenas?