A new age of abundant and cheap energy supplies is redrawing the world’s geopolitical landscape, weakening and potentially threatening the legitimacy of some governments while enhancing the power of others.

Some changes already are evident. Surging U.S. oil production enabled America and its allies to impose tough sanctions on Iran without having to worry much about the loss of imports from the Middle Eastern nation. Russia, meanwhile, faces what President Vladimir Putin called a possibly “catastrophic” slump in prices for its oil as its economy is battered by U.S. and European sanctions over its role in Ukraine.

“A new era of lower prices is being ushered in” by the U.S. shale oil and gas revolution, Ed Morse, global head of commodities research for Citigroup Inc. in New York, said in an e-mail. “Undoubtedly some of the geopolitical changes will be momentous.”

They certainly were a quarter of a century ago. Plunging oil prices in the latter half of the 1980s helped pave the way for the breakup of the Soviet Union by robbing it of revenue it needed to survive. The depressed market also may have influenced Iraqi leader Saddam Hussein’s decision to invade fellow producer Kuwait in 1990, triggering the first Gulf War.

Russia again looks likely to suffer from the fallout in oil markets, along with Iran and Venezuela, while the U.S. and China come out ahead.

‘Geopolitically Important’

Oil is “the most geopolitically important commodity,” said Reva Bhalla, vice president of global analysis at Stratfor, an advisory company in Austin, Texas. “It drives economies around the world” and is located in some “usually very volatile places.”

Benchmark oil prices in New York have dropped more than 30 percent during the last five months to around $75 a barrel as U.S. crude production reached the highest in more than three decades, driven by shale fields in North Dakota and Texas. Output was 9.06 million barrels a day in the first week of November, the most since at least January 1983, when the weekly data series from the Energy Information Administration began.

“For 10 years, the defining factor in the oil market was the growth of China and Chinese oil...
demand,” said Daniel Yergin, vice chairman of Englewood, Colorado-based consultant IHS Inc. and author of a Pulitzer Prize-winning history of the commodity. “Now the defining factor is the astonishing growth of U.S. oil production.”

**Price War**

Saudi Arabia and Kuwait have begun what energy economist Philip Verleger calls a “price war of necessity” in response, aimed at protecting their market share and forcing producers in the U.S. and elsewhere to reduce output.

So far, U.S. companies aren’t flinching, believing they have more staying power than many of Saudi Arabia’s 11 partners in the Organization of Petroleum Exporting Countries, or OPEC.

“Saudi Arabia is really taking a big gamble here,” said Archie Dunham, chairman of shale producer Chesapeake Energy Corp. in Oklahoma City. “If they take the price down to $60 or $70 a barrel, you will see a slowdown in the U.S. But you’re not going to see it stop.”

Leonardo Maugeri, a former executive at Italian oil company Eni SpA who is now at Harvard University in Cambridge, Massachusetts, said the market has entered a “gray zone.” A terrorist attack on oil fields in the volatile Middle East could send prices back up. So too could a cutback by OPEC -- which meets on Nov. 27 in Vienna -- or a revival of global demand, though Maugeri says neither is likely.

**Probable Case**

The most probable case is a four- or five-year cycle with prices in a general range of $65 to $80 a barrel, he said. That compares with an average of about $88 from 2008 to 2013 and a high of more than $140 at one point during that period.

The big question is whether oil-producing nations will react with accommodation or confrontation, said James Burkhard, vice president and head of oil-market research for IHS.

“That’s where the water gets a little muddy,” he said. “That story will be unfolding in the months and year ahead. It does add greater uncertainty and volatility that can often lead to negative surprises.”

Russia is the biggest loser, according to a Bloomberg Global Poll of international investors last week. Revenue related to the sale of oil and natural gas accounts for about half the country’s budget.

The combination of U.S. and European sanctions and declining oil prices means a period of extended economic stagnation for Putin comparable to the later years of Soviet leader Leonid Brezhnev’s 1964-1982 rule, said Neil Shearing, the chief emerging-markets economist at Capital Economics Ltd. in London.
Falling Ruble

Russia’s economy will contract by 1.7 percent next year after stalling out in 2014, IHS forecasts. It projects inflation will rise to 8.4 percent from 7.6 percent, boosted by a depreciating currency. The ruble has fallen about 30 percent against the U.S. dollar this year.

The economic woes thus far haven’t undercut the Russian leader’s support at home or his determination to stand up to the U.S. and European criticism over Ukraine.

“Thanks to sanctions, the population has rallied behind Putin,” said Alexei Mukhin, head of the Center for Political Information, an independent consulting company in Moscow. “People are ready to put up with hardship in order to resist the West.”

This could change the longer oil prices stay down and the more Russia’s economy weakens.

“It will erode Putin’s support” if it goes on for another six months to a year, said Nariman Behravesh, chief economist for IHS.

Oil-Export Revenue

Iran has seen its revenue from oil exports fall by some 30 percent, President Hassan Rouhani said in remarks to parliament published Oct. 29 on Shana, the Oil Ministry’s news website. The nation needs to achieve a break-even sales price of $143 a barrel this year to keep its budget in balance, according to data compiled by Bloomberg.

Like Russia, Iran’s economy has been weakened by economic sanctions -- in its case over its nuclear program. The steps by the U.S. and its allies have almost closed Iran’s oil and gas fields to investment in the last decade, limiting the country’s access to technology to boost output.

The decline in crude prices and a Nov. 24 deadline for a nuclear accord are raising pressure on Rouhani, elected last year on a platform to end Iran’s isolation and revive growth.

Downward Pressure

If he does strike a deal and sanctions are lifted, it could put further downward pressure on oil prices as the country increases its exports. That’s what London hedge-fund manager Pierre Andurand -- who predicted the price plunge last month -- is betting on. He sees Brent crude declining to $65 to $70 a barrel as Iran boosts output after reaching a nuclear agreement, according to a Nov. 11 letter to his investors.

Brent for January settlement ended yesterday at $78.10 a barrel on the London-based ICE Futures Europe exchange.

Falling prices also are bad news for Venezuela and its increasingly unpopular president, Nicolas
Maduro. The country’s economy already is in deep trouble, with inflation of 63 percent in the 12 months through August.

Venezuela lost 30 percent of its foreign-exchange revenue in the last month because of a “tremendous” drop in oil prices, Maduro said Nov. 13 in a televised national address from Caracas. He said he sent the country’s foreign minister to five oil producers, including Mexico and Russia, to drum up support ahead of the Nov. 27 OPEC meeting.

**Petro-State Producers**

“Producers in the petro states will have to act to put a bottom on prices if their governments want to survive,” Citigroup’s Morse said.

Social turmoil in Venezuela could “paradoxically” help prop up prices “a bit” if output there was disrupted, said Michael Levi, senior fellow for energy and environment at the Council on Foreign Relations in New York.

The U.S. is emerging as a big winner, according to the Nov. 11-12 poll of investors, analysts and traders who are Bloomberg subscribers.

Increasing energy independence means the U.S. is less vulnerable to supply disruptions overseas, said Robert Hormats, a former undersecretary at the U.S. State Department who is now vice chairman of Kissinger Associates in New York. Independence also provides added leverage in international negotiations, whether with Iran over its nuclear program or with Russia over its intentions in Ukraine.

**U.S. Prestige**

The boom in U.S. energy output also enhances U.S. prestige, which had been dented by the global financial crisis that originated in America’s housing market, said Bruce Jones, a senior fellow at the Brookings Institution in Washington.

“You talk to business people in China, and they are transfixed by the way the U.S. has generated this technological revolution in energy,” Jones said.

China is another big winner, as it imports almost 60 percent of its crude, said Lin Boqiang, director of the energy economics research center at Xiamen University and an independent director of PetroChina Co.

The world’s second-biggest economy probably will take advantage of the savings to build up its strategic reserves rather than dedicating the funds to increased spending on defense or the environment, according to Lin.

The plunge in oil prices also gives the nation leverage in its dealings with Russia. The two countries
signed a $400 billion, 30-year gas-supply accord in May during a summit in China, then deepened their energy ties earlier this month by signing a preliminary agreement for a second Russia-China pipeline.

“China will always have an upper hand in dealing with Russia as long as crude prices stay low,” Lin said. “Russia needs the energy income dearly.”

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