Saudi Arabia’s oil strategy and its impact on global energy markets

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Presentation Outline

• A brief history of Saudi Arabia’s oil policy

• Some recent changes to Saudi policy following the “Arab Uprisings”

• Reasons for current uncertainties over Saudi policy
A brief history of Saudi Arabia’s oil policy

- Price moderation
  - Tehran December 1973
  - The DOHA split 1976

- The swing role 1974-1980

- Resumption of the swing role 1981-85

- The summer of 1985
Some recent changes following the “Arab Uprisings”

• The price norm since 2000 has been volatility
• However between Jan 2011 and June 2014...
The recent market developments

The input of geo-politics

- Price stability is rather surprising given the “Arab Uprisings”

Monthly spot prices WTI 2011- June 2014

Changes in production Dec-2010 to Mar-2014

Geo-political Losses
The recent market developments

- Why the price stability? Gains offset losses
- BUT key role for Saudi Arabia “balancing” the market
The recent market developments

- Why the price stability? Gains offset losses
- Key role for Saudi Arabia “balancing” the market
The underlying problem was “OPEC’s dilemma”

– Governments need a high price to survive

– But this leads to demand destruction

– And increased Non-OPEC supply

– This was unsustainable*

* As predicted: See Paul Stevens & Matthew Hulbert, Oil prices: energy investment, political stability in the exporting countries and OPEC’s dilemma. Chatham House Briefing Paper, October 2012

Source: Ali Aissaoui Apicorp Economic Commentary Vol 9 No. 708 July- August 2014
Demand destruction

- **Note high prices since 2005**

- Demand disappointing in 2014. Partly because of an income effect.

- **BUT** there is also a price effect leading to demand destruction. China and India removing subsidies on domestic prices
Increased Non-OPEC supply

- Courtesy of the “shale technology revolution” = horizontal drilling + hydraulic fracturing
- US output rose from 5.5 mnb/d in 2010 to 9.4 mnb/d in 2015

Source: EIA Energy Outlook May 2014
Note the data points are five yearly intervals
What happened next?
Dramatic rise in inventories

• If continuing oversupply cannot be stored, must be sold at lower prices

• Saudi begins to cut production during summer 2014 BUT then remembers their previous “swing role”

• In early September 2014 they stop cutting and conspiracy theories rule!

• OPEC 27th November meeting launches prices into a competitive market for first time since 1928
Growing over-supply = from June 2014 price collapses

- Some recovery after January 2015
- But not clear on what basis, given inventories continue to rise
  - Geo-politics back again: Saudi Arabia in Yemen?
  - Many talking up the market?
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• Reasons for current uncertainties over Saudi policy
Reasons for current uncertainties (1)

• New King and the next generation

• Market share strategy is new

• Claiming the success of the strategy BUT it is too early to tell given:
  • Demand uncertainty
  • The current “fracklog”
  • Changes to the price elasticity of supply
Reasons for current uncertainties (2)

Changes to the oil sector institutions and other future changes?

• Next Oil Minister?
  • Pre-Salman there were two candidates
  • But Khaled Al Falih moved to Health Ministry and Abdul Aziz Bin Salman as a “Royal”???

• Moving Saudi Aramco away from the Oil Ministry?
  • Council of Economic Development Affairs
  • Supreme Council of Saudi |Aramco replaces the Supreme Petroleum Council

• Possible scenario = splitting Oil from Energy? But in reality probably little change to the underlying policy!
Thank you