

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

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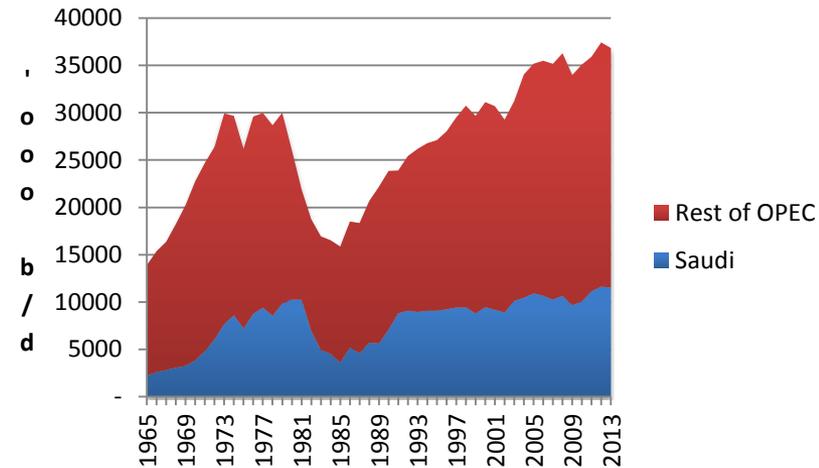
Presentation Outline

- 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

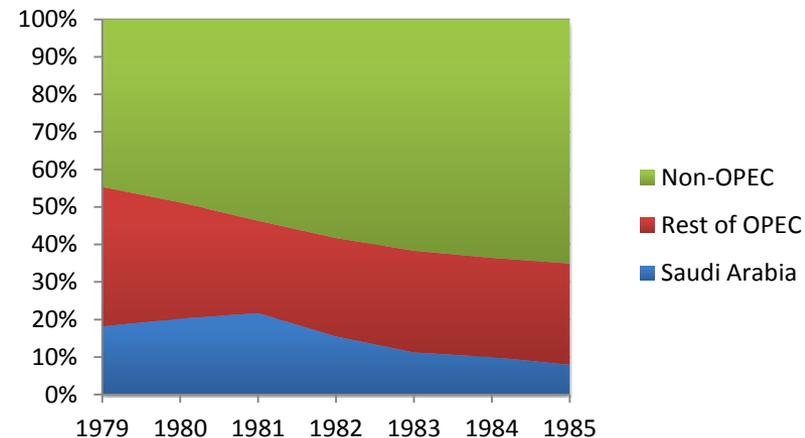
A brief history of Saudi Arabia's oil policy

- 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

Oil production 1965-2013



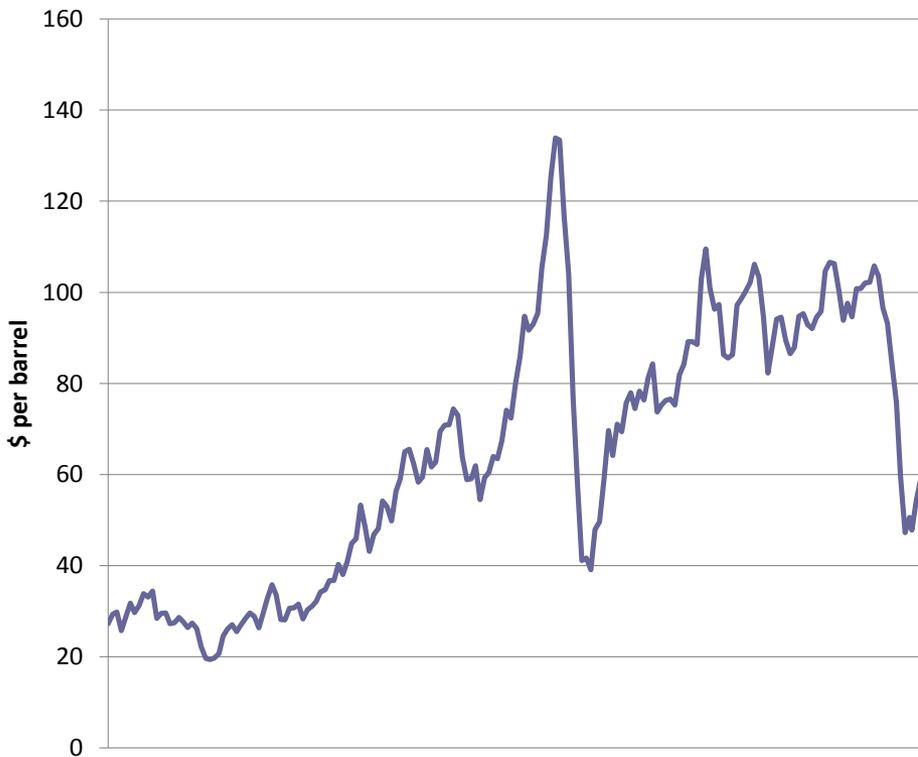
Saudi Arabia's swing role 1979-1985



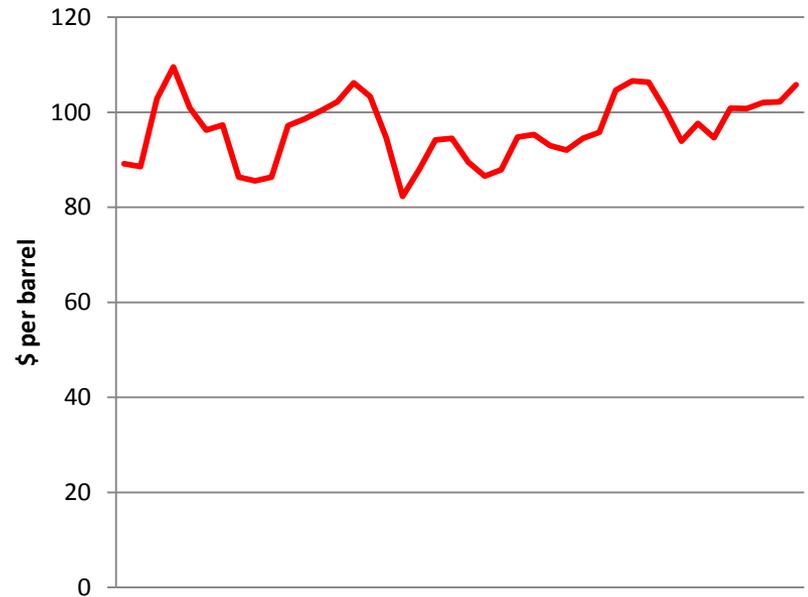
Some recent changes following the “Arab Uprisings”

- The price norm since 2000 has been volatility
- However between Jan 2011 and June 2014...

Monthly spot prices WTI 2000-Mid May 2015



Monthly spot prices WTI 2011- June 2014

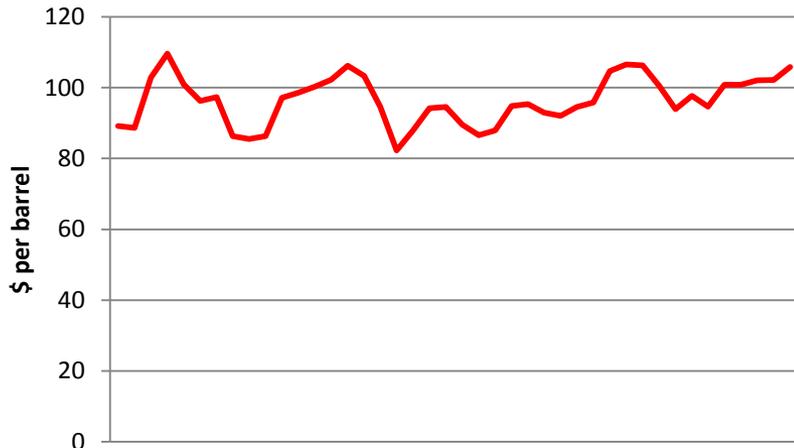


The recent market developments

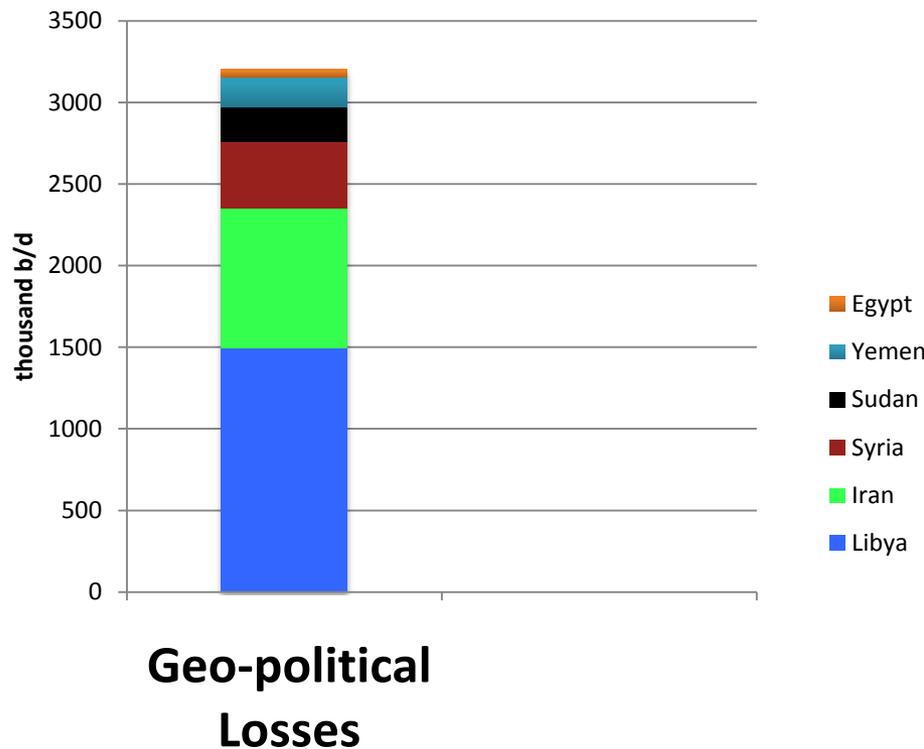
The input of geo-politics

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

Monthly spot prices WTI 2011- June 2014



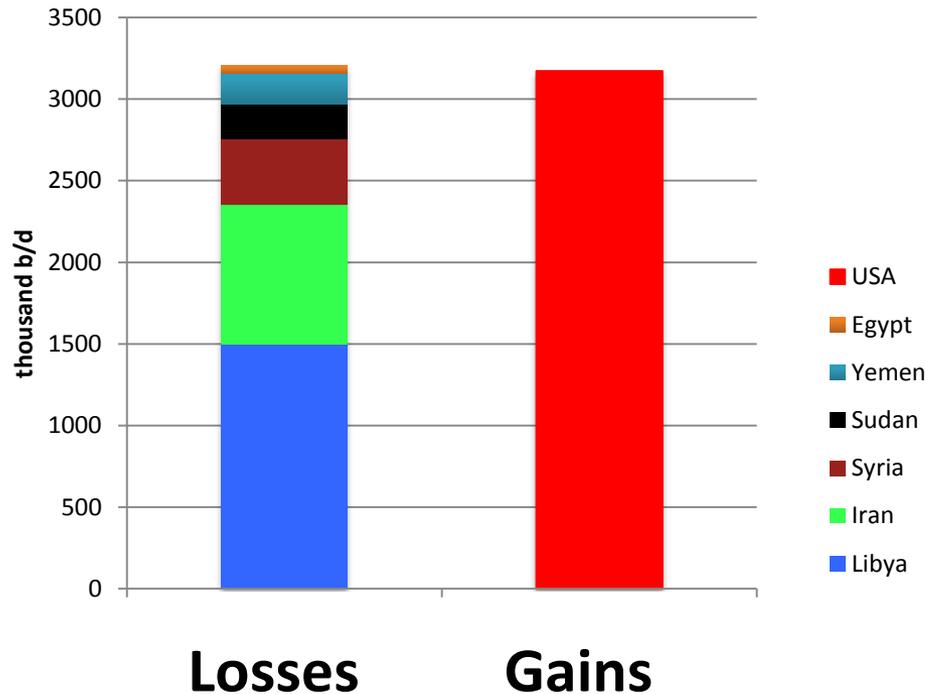
Changes in production Dec-2010 to Mar-2014



The recent market developments

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

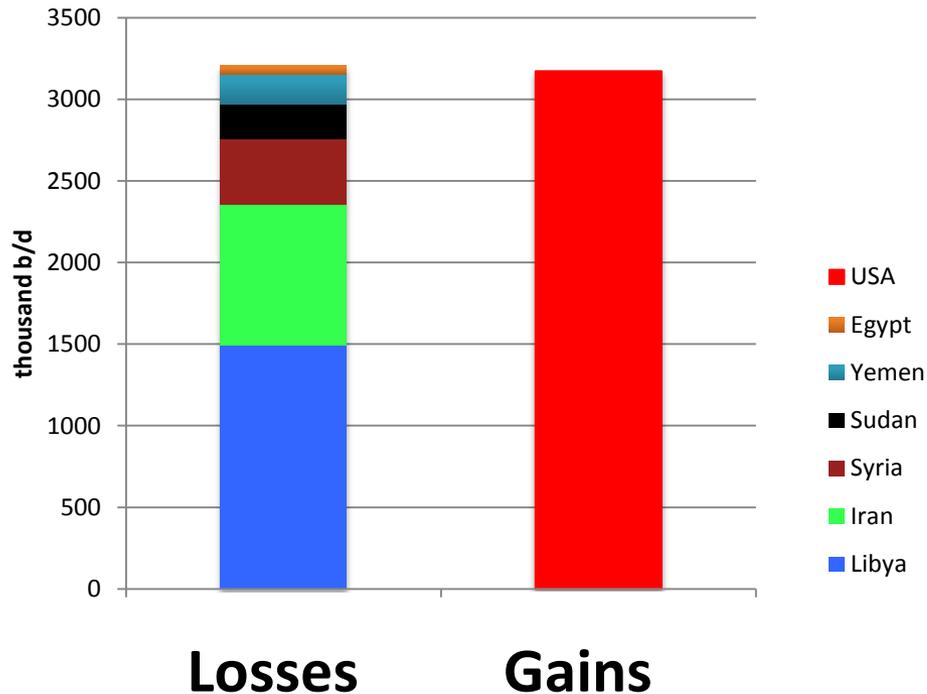
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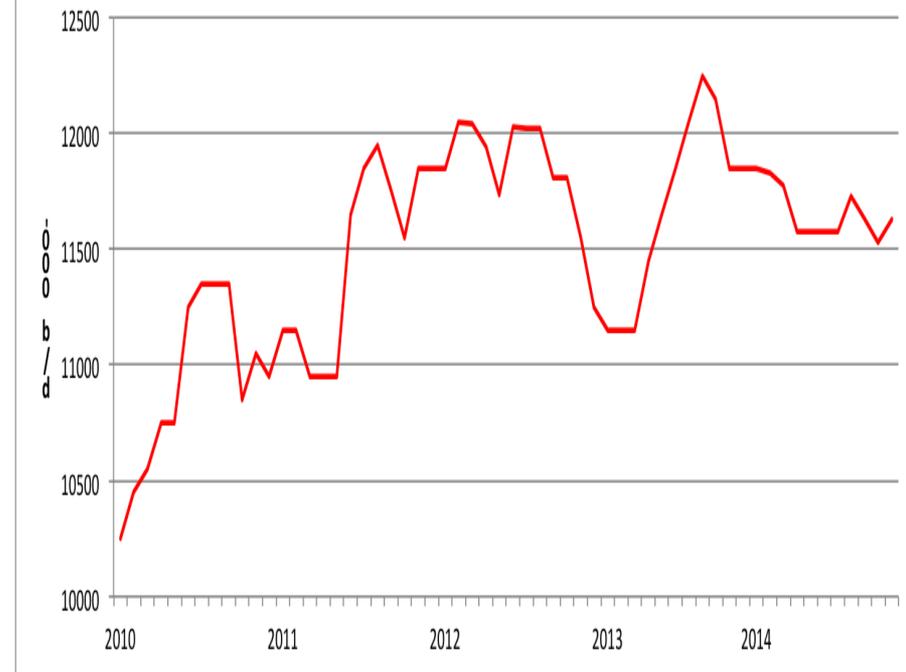
The recent market developments

- Why the price stability? Gains offset losses
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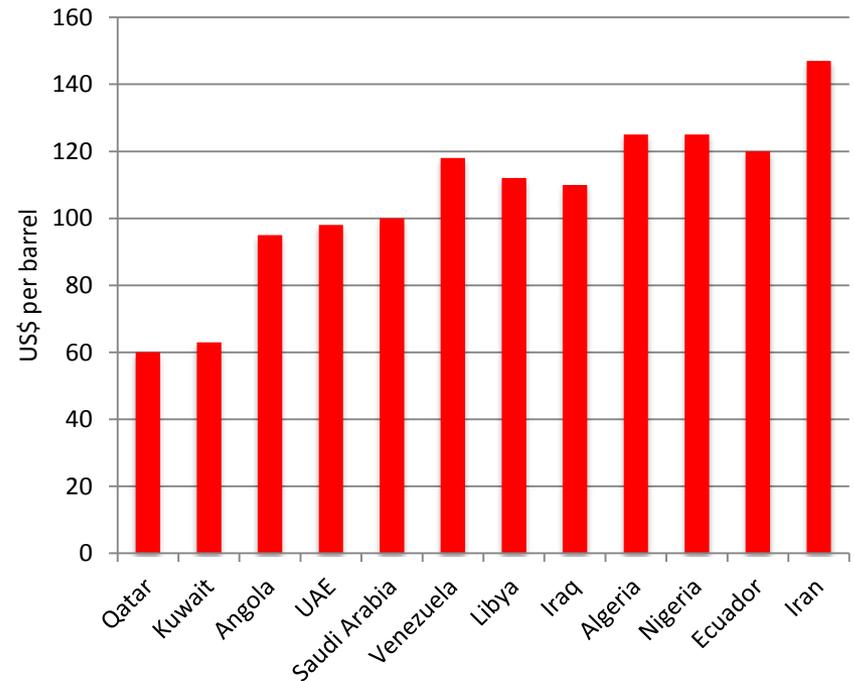
Saudi monthly production 2010-2014



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*

OPEC Median Budgetary Break-Even Price



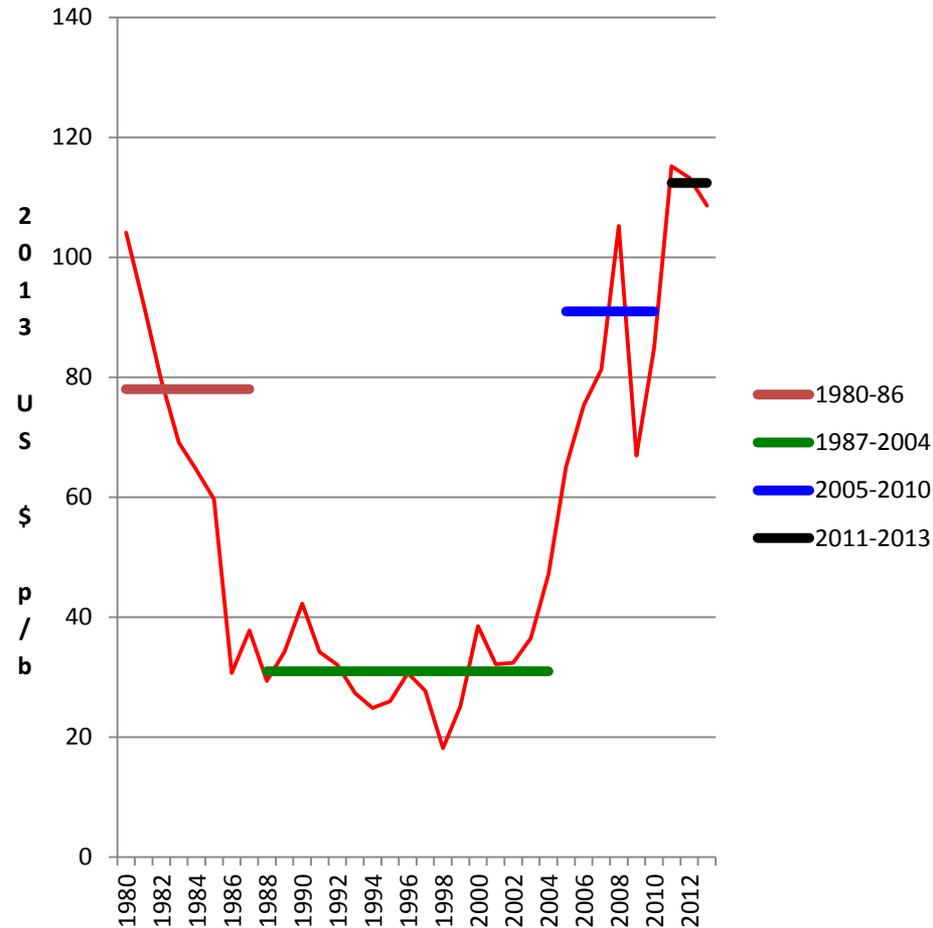
Source: Ali Aissaoui Apicorp Economic Commentary Vol 9 NO. 708 July- August 2014

* **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**

Demand destruction

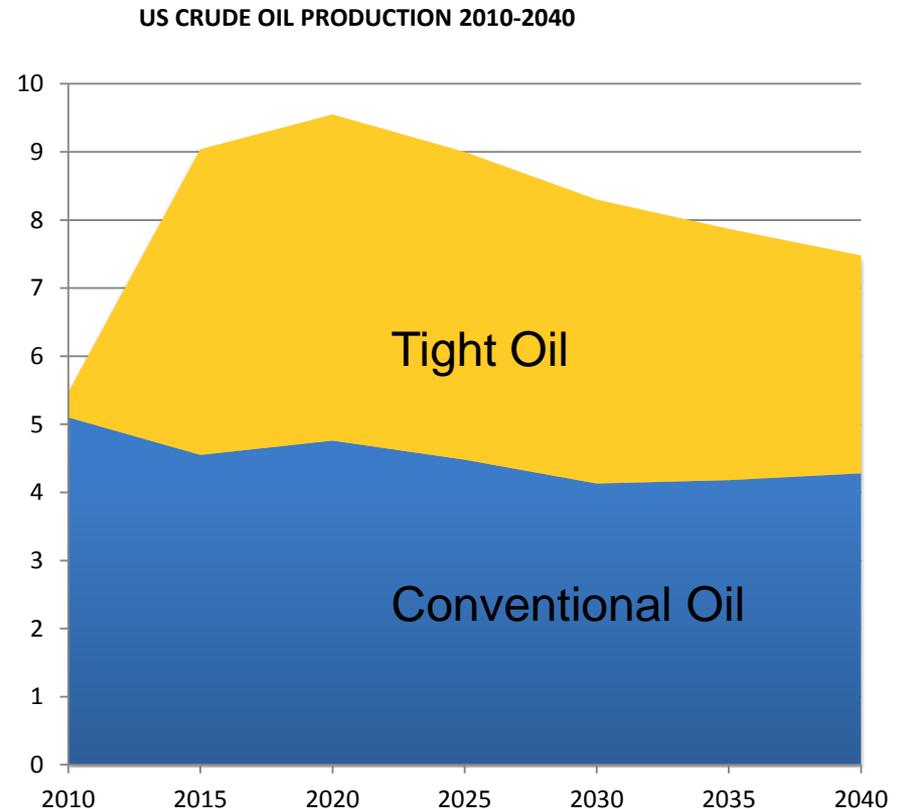
- **Note high prices since 2005**
- Demand disappointing in 2014. Partly because of an income effect.
- **BUT** there is also a price effect leading to demand destruction. China and India removing subsidies on domestic prices

Annual average prices (Brent 2013 US\$) 1980-2013



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



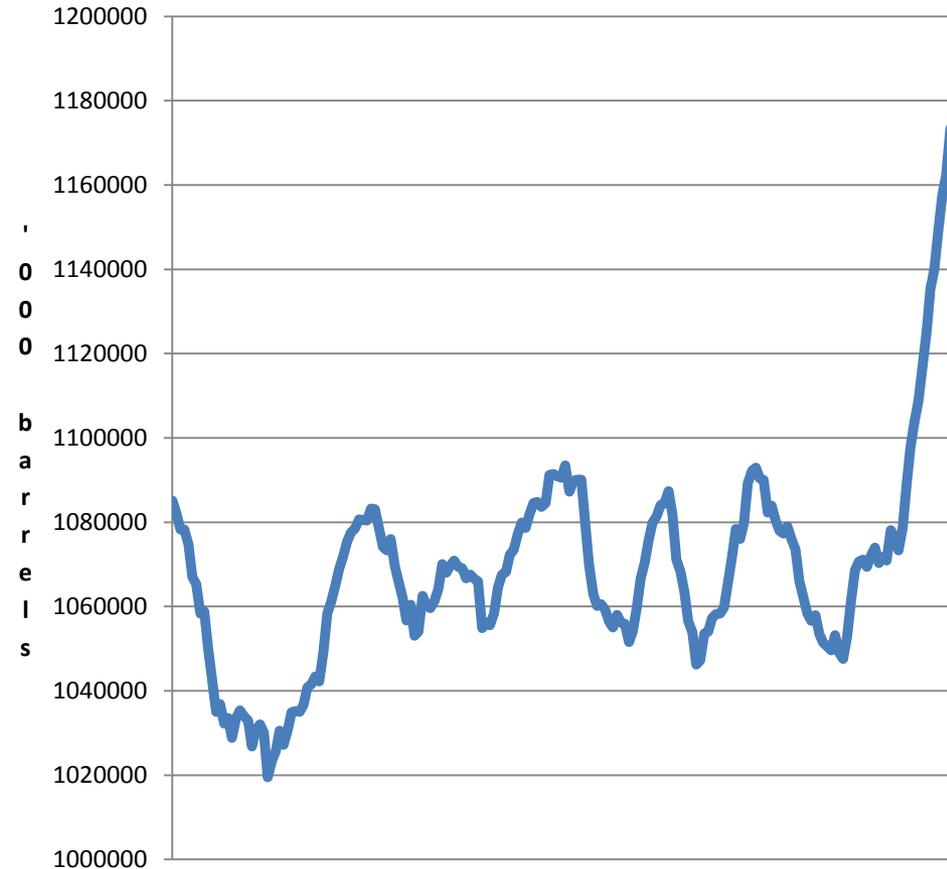
Source: EIA Energy Outlook May 2014
Note the data points are five yearly intervals

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

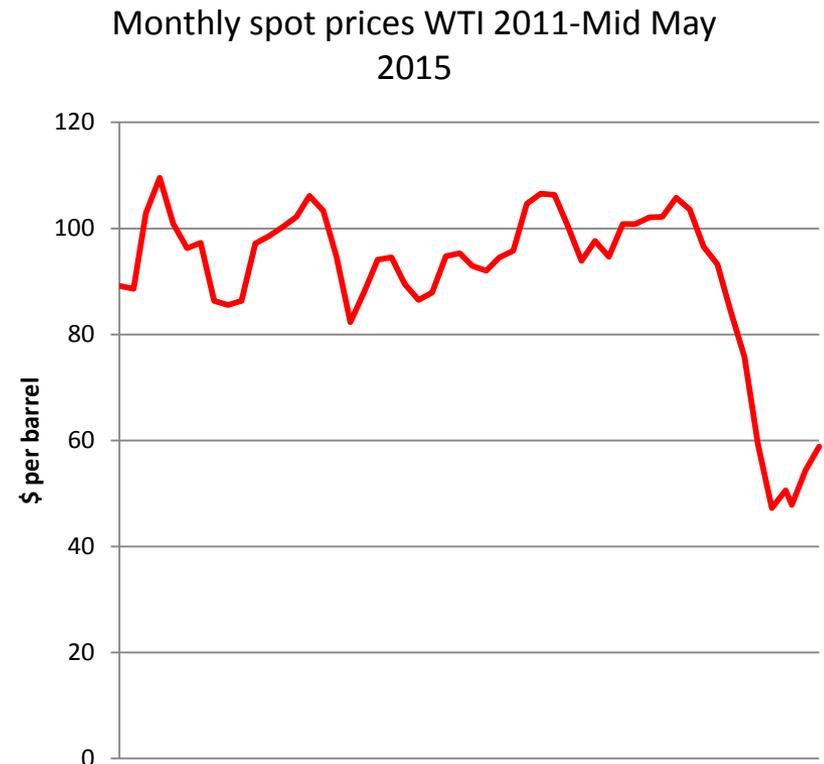
US crude oil stocks 2011- April 2015



EIA Website 18 April 2015

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 (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

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