

Column

Saudi Energy Minister Falih Makes OPEC Debut

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The Organization of the Petroleum Exporting Countries held its 169th meeting in Vienna on June 2. In the run-up to the meeting, no agreement was expected at the gathering due to the confrontation between Iran that was seeking to restore crude oil production and export levels before Western sanctions and refusing to accept any freeze on any production increase and Saudi Arabia that vowed to avoid any OPEC oil production increase freeze unless Iran accepts the freeze. As expected, the meeting produced no agreement. Rather, a statement on the meeting made no mention of any production target and only called for watching future market trends closely and convening a meeting to take measures as necessary. The statement apparently reflected the OPEC members' relief that crude oil prices rose back to around \$50 per barrel.

Given the above, the new Saudi Arabian energy minister's debut, rather than any agreement on a production target, was attracting attention in regard to the latest OPEC meeting. On May 7, Saudi Arabia announced a government reorganization and cabinet reshuffle under the order of King Salman bin Abdulaziz Al-Saud, appointing Kahlid A. al-Falih as the new energy minister to succeed Ali al-Naimi who had long been in charge of Saudi Arabia's oil policy and international arenas such as OPEC. No doubt, many people were closely watching how new Saudi Energy Minister Falih would act upon his debut at an OPEC meeting.

Naimi was dominantly viewed as promoting Saudi Arabia's oil policy while separating energy from political issues as much as possible during his tenure as energy minister. Reportedly, he listened and made careful responses to opinions of other countries, talking with non-OPEC oil producing countries and oil consuming countries as well as OPEC members. However, his position was attracting attention as Mohammad bin Salman Al Saud began to exert great influences on oil and other Saudi Arabia's policy decisions after becoming vice crown prince, defense minister, chairman of the Economic Development Council and chairman of Saudi Aramco's supreme council in April 2015.

The OPEC meeting was the first international arena for Falih after being appointed energy minister in this way. The author failed to attend the OPEC meeting and bases this paper on media and other reports. According to plural OPEC sources, Saudi Arabia Energy Minister Falih's conciliatory attitude prevented Saudi Arabia's confrontation with Iran from intensifying. Saudi Arabia and some other OPEC member countries tried to propose a new production quota for the cartel in a bid to restore the significance of OPEC and terminate a market share race. In this respect, Iran refused to support any new OPEC-wide production quota and called for discussing country-by-country quotas. Iran also noted that it could account for 14.5% of total OPEC oil output based on historical production levels.

Iran was thus led to clarify its oil production target. This may be an achievement at the latest OPEC meeting. This means that new Saudi Arabia Energy Minister Falih has followed his predecessor's good communication approach. The present Saudi Arabia's policymaking process indicates that Vice Crown Prince Mohammad makes key policy decisions, under which Energy Minister Falih may be sending moderate messages while listening to partners.

His predecessor Naimi briefed reporters on Saudi Arabia's views during a morning walk just before every OPEC meeting. Questioned by reporters about Saudi Arabia's oil policy just after the latest OPEC meeting, Falih said that Saudi Arabia would respond very moderately and would never surprise the market or increase oil supply substantially.

While OPEC's influences have reportedly weakened, the oil policy of Saudi Arabia as the largest oil producer in the world exerts impacts on the global oil supply-demand balance and crude oil prices. In this sense, we must keep close watch on the Saudi Arabia energy minister's remarks that could indicate the vice crown prince's views.

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