

The impact of an “America First” policy on stability in the Middle East: The impact on oil markets?

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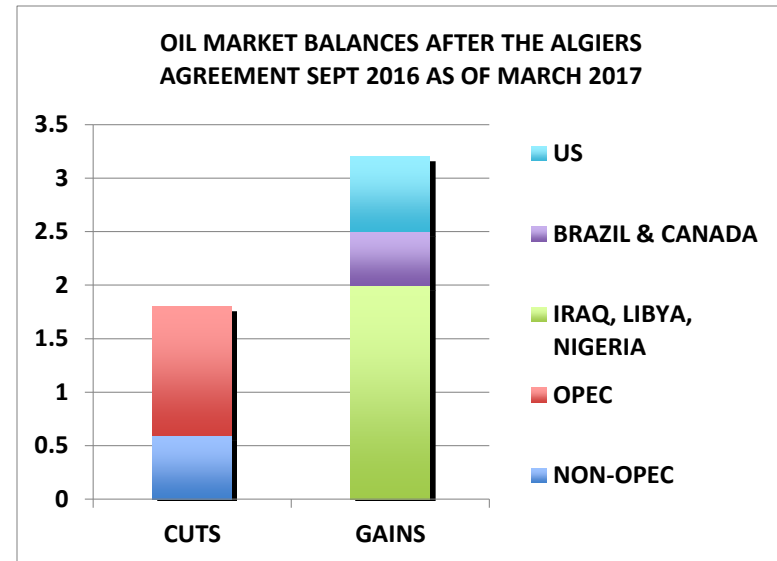
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Presentation outline

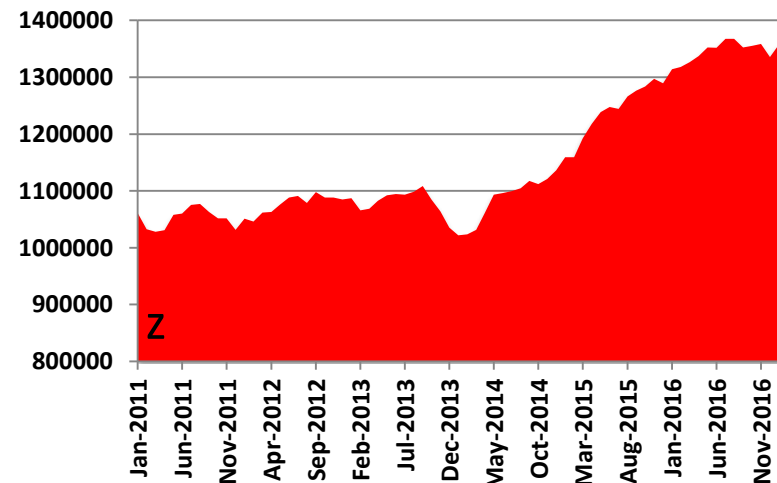
- **Problems of ‘Trumpian Uncertainty’**
 - What does it mean? Even after 100 days...
 - Focus on the oil market and the MENA region’s role in that market in a ‘Trumpian World’
- **Current state of the oil market: lower for longer?**
- **Trumpian impact on MENA?**
 - Oil producers and lower prices: Saudi Arabia
 - Iran and the JCPOA
 - Jerusalem and US embassies

Current state of the oil market: Lower for longer?

- December 2016 agreement cuts 1.8 mn b/d (o.6 Non-OPEC)
- The cuts were too little
 - Algiers target in Sept = 29.8 mbd by Jan. In March, even accounting for 1.2 cut, OPEC producing 31.8 mbd. Needed another 2 mbd
 - As for compliance???
- Market balancing is some way off
 - Existing huge stock overhang
 - Nigeria, Libya and Iran excluded from cuts
 - Not all Non-OPEC is included and 'America First Policies' will only increase supply
 - On May 25th OPEC will have to extend (increase?) the December cuts
 - Prospects for oil prices are not good



US Oil Stocks 2011- Feb 2017 (excluding SPR)



Current state of the oil market: Lower for longer?

- **Continuing unbalanced market** = oversupply = downward pressure on prices
 - What is the floor price? In a competitive market = SRMC tight oil <\$25 and falling because of improved efficiency
- **Price ceiling** from the U.S. “fracklog” and new wells (encouraged by ‘America First Policies’) and increased price elasticity of supply ~\$60
 - For example: between Jan and March EIA forecast for 2017 increased by 0.5 mn b/d reflecting higher prices
- **BUT** price forecasts always require a ‘health warning’: “Geopolitics and can be bad for your price forecasts” especially in a world of ‘Trumpian Uncertainty’.

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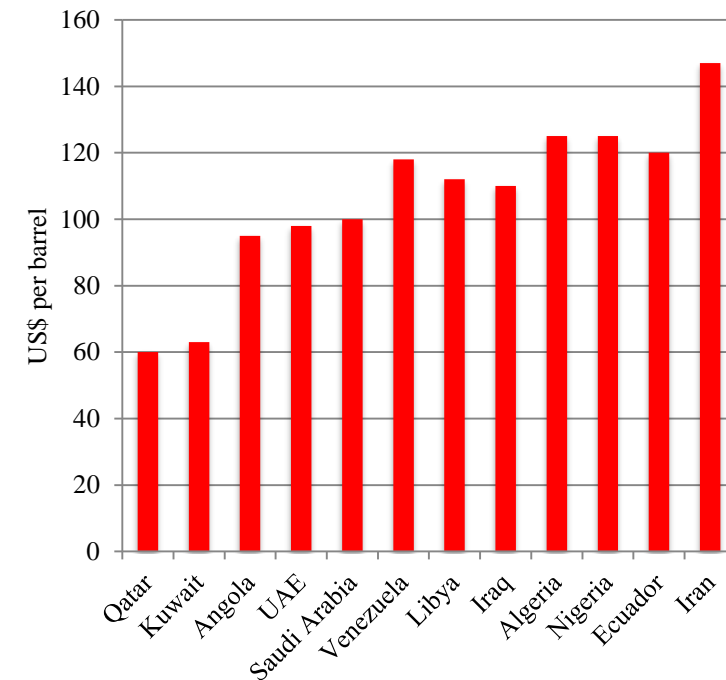
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Trumpian impact in MENA

Oil producers and lower prices: Saudi Arabia

- Generally: producers, revenue needs and political unrest
 - All adds to the region's instability
 - Trump's attack on Syria illustrates the potential for the return of a geo-political premium? Very short-lived BUT in future if Trump compounds regional instability ...?
- The Saudi oil strategy – make the supply curve go the right way - took much longer than expected
 - 'Break-even price' versus 'shut-in price'
 - Problems with achieving 'market share'
 - Uncertain over relations with the new Trump administration and his promise to “eradicate radical Islam”

OPEC Budgetary Break-Even Price 2014

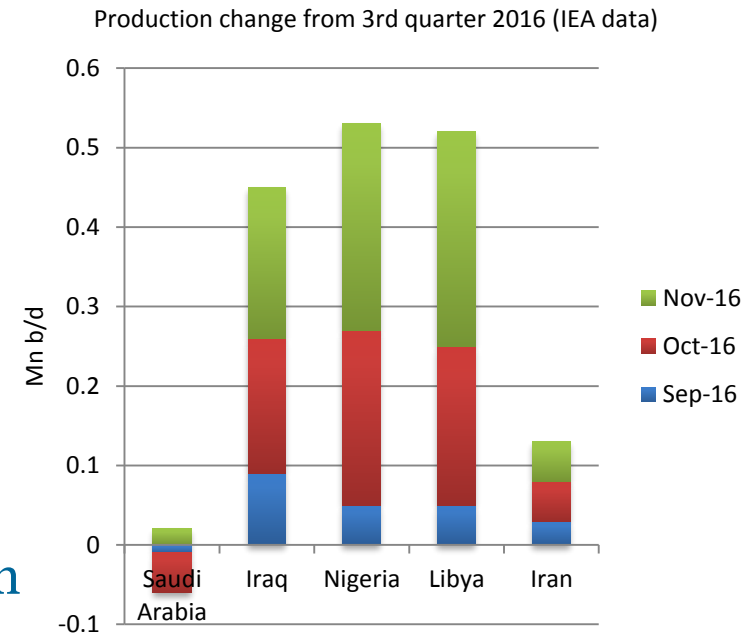


Source: Ali Aissaoui , 2014

Trumpian impact in MENA

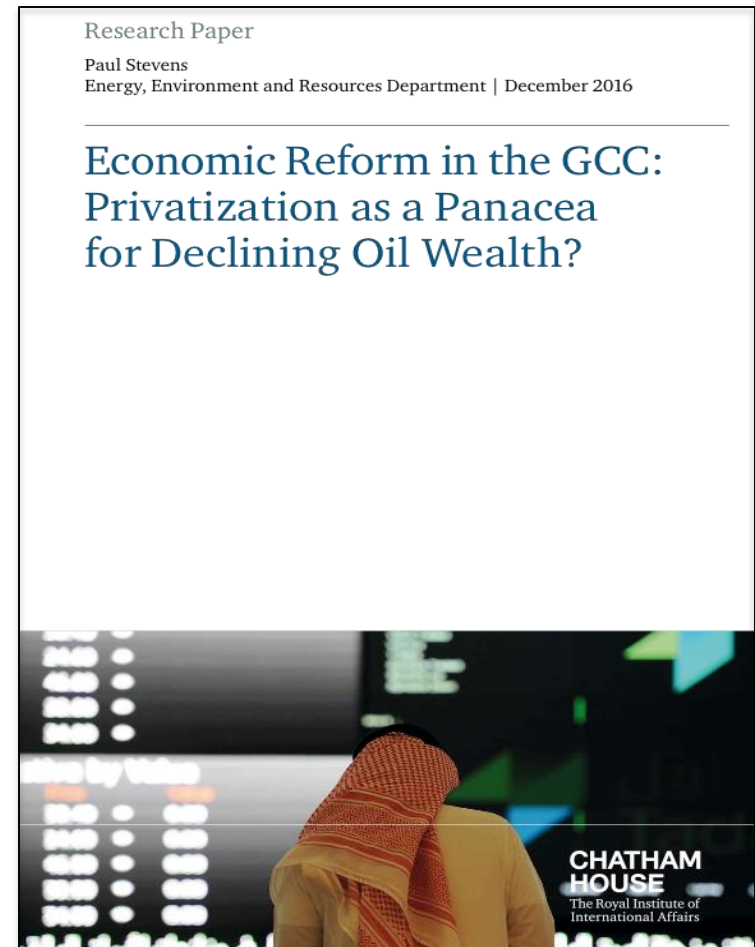
Saudi Arabia's oil policy

- At the start of 2016, when 'victory' appears close
 - US tight oil slowing; stocks plateauing; price rising:
 Saudi Arabia changes policy:
 - tries to regain control via agreements: April -Doha; September -Algiers; December -Vienna
- Why?
 - Mohammad bin Salman under pressure
 - Pressures from the rest of the family
 - Yemeni military adventure failing
 - Growing opposition to reforms
 - Financially: reserves fall faster than expected (Summer 2014 \$750bn; Dec 2016 \$536bn; currently <\$500bn)
 - Saudi Aramco struggling with production. October could not get above 10.9 mn b/d
- Future Saudi strategy in a world of 'Trumpian Uncertainty'?
 - Restore spare capacity cushion
 - Market share versus a controlled market: May 25?
 - Privatization of Saudi Aramco ...



Saudi Arabia's oil policy: privatization?

- There are problems
 - What will be sold off? Above versus below ground assets
 - Poor transparency and poor profitability
 - Tax reform reducing tax rate from 85% to 50% - previously 93% of Saudi Aramco's profit to government
 - What happens to the 'national mission'
 - The underlying ideology also explains why governments will make a mess of the exit



<https://www.chathamhouse.org/publication/economic-reform-gcc-privatization-panacea-declining-oil-wealth>

Trumpian impact in MENA

What are the prospects for relations with Iran?

- Sanctions off BUT: Snap back clauses threaten and financial sanctions remain as do sanctions against the IRGC
- JCPOA probably safe BUT Congress (and Trump?) likely to create/enforce sanctions: Iranian Presidential elections (May 19) lead to a backlash against the US? Remember Iran is in a position to add to the (already) unstable situation in MENA
- Serious barriers to restoring (increasing) Iranian production
 - Old fields needing the Consortium's EOR programme 1977-8. Production struggling lacking access to parts and technology
 - NIOC technical capabilities seriously damaged by politically driven retirements during Ahmadinejad's regime
 - Iranian Petroleum Contract promising BUT:
 - Not yet fully approved in Tehran. IPC is very controversial
 - Facing intense competition from other producer governments' opening acreage
 - IOC upstream investment pot is contracting.
- Will take a lot longer than many think to increase production – recent numbers distorted by running down stocks
- Meanwhile – could Iran be forced into 'retaliation' compounding MENA instability – remember the geo-political premium on prices?

Trumpian impact in MENA

US policies to the Israeli-Palestinian problem?

- Moving the US Embassy to Jerusalem, possibly the most dangerous of Trump's election promises?
- If carried out, likely to lead to massive popular protests throughout the region creating further massive regional instability
 - Threatens US supported regimes
 - Generate massive anti-US feelings and anti-US action
 - How would an 'America First' policy respond when the results of anti-US action appear on Fox News?





THANK YOU FOR YOUR ATTENTION

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