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

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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 (0.6 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 Polices’ will only increase supply
  - On May 25th OPEC will have to extend (increase?) the December cuts
  - Prospects for oil prices are not good ....
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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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
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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