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The Quiet Revolution in the Global Oil Industry

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In recent years, the oil-producing countries refrained from making informed decisions about reducing the amount of oil they supply to the global market. The result has been a sharp decline in their revenues. In 2012, when the industrialized countries emerged from the economic crisis that hit the world economy in 2008-2009, the price of crude oil soared, reaching \$110 a barrel. Three years later, in December 2015, the price of a barrel of oil was less than \$50. Saudi Arabia, the most influential oil producer because of its oil reserves and its hold on a quarter of the daily supply of crude oil to markets, was behind the decision not to reduce the amounts in order to raise prices. The reason: its desire to maintain the global markets connected to the supply of Saudi oil at any price, and also, some say, its desire to decrease the economic viability of investments in developing alternative energy sources, especially in the United States.

The Saudi strategy proved to be a double-edged sword. The growth in Saudi GDP declined from 10 percent in 2011 to 2.7 percent in 2013 and 1.2 percent (forecast) in 2016. The year also closes with a budget deficit – a phenomenon unknown in the kingdom since the changes to the ownership structure of oil revenues after World War II – of 13 percent of Saudi GDP. Such a deficit can be reduced by internal and external loans and by reducing foreign currency reserves, which indeed decreased from \$724 billion in 2014 to \$542 billion by the end of 2016. Other oil producing countries likewise suffered as a result of the drastic drop in their revenues. In most cases, oil revenues serve as a source of funding for subsidies that countries provide for products and services, and in this way, in most of the countries that produce the raw materials for energy, they help the regimes buy the support of citizens. For example, almost half of Saudi Arabia's national budget goes toward salaries, allowances, and pensions; reductions in subsidies have often fed opposition to the government. A rise in oil exporting revenues may make it easier to delay the implementation of value added tax in Saudi Arabia, which is planned for 2018, and which would certainly lead to a rise in prices and to public resentment.

Thus the process that began in recent months, which prompted the major change in world oil prices, is not surprising. On September 28, 2016, when the OPEC oil ministers met in Algeria (OPEC was established in 1960 and brings together 13 of the oil-exporting countries), they noted the rise in the amounts of oil amassed by major consumers and decided to reduce the daily supply of oil from their respective states. Of the daily total of 95 million barrels, OPEC countries

supply 33.7 million. At the November 30, 2016 meeting in Vienna, they reiterated concerns about the growth in the amount accumulated by consumers and decided on a new export target of 32.5 million barrels per day, starting at the beginning of 2017 (meaning reducing exports from OPEC countries by 1.2 million barrels per day). The OPEC ministers met with colleagues from the exporting countries that are not members of OPEC on December 10, 2016, and these countries also decided to reduce their oil exports by about half of OPEC's reduction.

The impact of these two decisions, which will take effect on January 1, 2017, was immediate. The price of a barrel of oil (based on a "basket" of different kinds of oil) rose by some 15 percent, and some predict that in the coming months prices will soar at an even faster rate.

The decision not to ignore the consequences of the Saudi strategy of maintaining markets at the expense of revenues, and to return to the "traditional" situation of using supply to influence prices, has economic and political implications, not all of them immediate. Presumably within Saudi Arabia there was a heated debate about the change, which could affect the question of King Salman's successor. This is because Crown Prince Muhammad bin Nayef, and even more so Deputy Crown Prince Mohammad bin Salman, as head of the Council of Economic and Development Affairs, were directly involved in making the decisions that led Saudi Arabia to problematic financial and political situations. OPEC's decision to reduce the amount was made after Iran imposed its position upon Saudi Arabia, whereby the cuts to daily production will not apply to Iran, so its profits from the rise in prices will not be affected by reducing amounts. This quiet victory by Iran, which means significantly increased revenues each time the price of oil rises, was not lost on other leaders in the Arabian Peninsula, and it joins other Iranian achievements, foremost among them the preservation and strengthening of the Assad regime in Syria – another theater where Iran and Saudi Arabia are on opposite sides.

Russia, one of the largest producers that are not members of OPEC, also benefits from the coordinated move by the two organizations of oil-producing states. The rise in revenues could make it easier for Vladimir Putin's regime to cope with the painful effects of the economic sanctions imposed on Russia following the invasion of Ukraine, and to cope with the dissatisfaction among broad sectors of the public hurt by the resulting decreases in social welfare services. Early signs of the new US administration's orientation toward Moscow are also encouraging for Russia.

The burden of rising oil prices will fall on the economies that consume imported oil, especially China, the European Union, Japan, and Korea. Although these countries have increased their oil inventories in recent years, over time these inventories will dwindle and boost oil sales. The United States also imports oil (over 8 million barrels a day, out of which just over a million is from Saudi Arabia), but its expenses from these imports will be offset to a large extent by the export of energy sources and rises in oil prices. If the increase continues over time, this will strengthen the viability of investments in developing energy sources within the United States,

which President-elect Donald Trump included in his election platform. Europe, which spent \$200 billion on oil in 2015, may suffer slowed economic growth and consequent internal political implications.

If the change in production levels remains in force, over time it could lead to other geopolitical changes, which could also gain momentum as a result of the deep political change that the United States will experience with Trump's entry into the White House. One example of this is the effect of the changes in the oil industry on the strengthening of Iran vis-à-vis the new President's declared intention to reopen the nuclear agreement. Another example is the influence of the changes in the oil industry on China, which in any event is challenged by the prospective American policy (more than) hinted at by the incoming US President. The decisions made by the two organizations of oil producers will be reexamined in half a year, and the mutual influences of the changes on the policies of the producing countries and on the US administration remain to be seen.

From Israel's perspective, the rise in global oil prices could have a number of consequences. The significant change in Iranian oil revenues enhances the sense of increased strength in Iran that appeared after the signing of the nuclear agreement, with European countries and American companies wooing Iran in the hope of achieving deals, as well as the Assad regime's victory in Aleppo. The Iranian successes will also be reflected in the Tehran's ability to aid regional players such as Hamas and Hezbollah. In addition, as long as the rise in oil prices is maintained or even increases, it may affect the price of oil that Israel imports, as well as future income from natural gas exports, which should rise. For example, the price set in the deal with the Jordanian Electric Power Company includes a mechanism that links it to the price of Brent crude oil.

