

## **The future of OPEC**

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The King Abdullah Petroleum Studies and Research Center (Kapsarc), based in Riyadh, is assessing the outcomes on the oil markets of a possible OPEC exit. Apparently, Saudi Arabia is examining what could happen if they left the oil cartel that they have dominated for almost 60 years, to become a cartel on their own.

The Saudi kingdom is seeking to consolidate its position as the Sunni Arab leader within the region, in opposition to Iran's ayatollahs. Proxy wars in Syria (in its initial phase) and Yemen are examples of the religious face-off between Riyadh and Tehran that has consumed many resources.

The crown prince of Saudi Arabia, Mohamed bin Salman, in his objectives for 2030, plans to replace oil as the main source of income in the next 2 years. However, the murder of journalist Jamal Khashoggi, after entering the Saudi Arabian Consulate in Istanbul, impacted the relationship with big investors of this plan, evidenced by the boycotting of the Saudi economic forum, Future Investment Initiative. Likewise, President Trump, via tweets, has been accusing the OPEC cartel of manipulating oil prices every time the price of oil rises above \$70 a barrel WTI.

Saudi Arabia's fears about the country's oil future appear to be increasing amid changing conditions. "The kingdom knows that oil demand will not last forever...so we have to think beyond OPEC, and we are considering a NOPEC action by the United States", said a senior advisor familiar to the matter, to The Wall Street Journal, referring to the project of American legislators - discussed in previous administrations- that could declare OPEC an illegal cartel.

According to this American newspaper, the study "is evaluating what would happen if there is no oil reserve capacity, in a scenario in which OPEC does not exist." In addition, the newspaper adds "the current investigation does not reflect that there is a debate within the Saudi government about whether or not the country should leave OPEC in the near term. The investigation is part of a broader rethinking of the role of Saudi Arabia during the years it has been a member of the cartel".

Since its founding, OPEC has regulated oil production to control global oil prices. OPEC members, such as Saudi Arabia, have long argued that the organization helps prevent oil prices from rising or falling too much, but critics say that OPEC has taken advantage of large oil-consuming nations, such as the United States, China and India lately.

Today, the major oil suppliers are the United States, Russia and Saudi Arabia. Between the three, they represent 33% of oil production in the world. The rest of oil producers are not essentials in the oil market.

The supply and demand have allowed oil prices to average between 30 to 65 dollars a barrel in the last 3 years, despite Iran's production drop (1 million bpd) due to oil sanctions for its nuclear program; Libya (600,000 bpd) and Nigeria (700,000 bpd) for their civil wars; and Venezuela (700,000 bpd) for the ineptitude and corruption of the Maduro regime.

Last weekend, at the OPEC ministerial meeting in Abu Dhabi, the Saudi oil minister announced that they would cut Saudi Arabia's production by 500,000 barrels per day (bpd) in December, due to the expected oversupply scenario in 2019. This is a unilateral decision of the kingdom, taken 3 weeks before the regular meeting of OPEC, to be held in Vienna on December 6 and 7. It should be remembered that in 2016, at the same meeting in December, OPEC returned to the production quota system, placing a maximum ceiling of 32.5 million bpd. This action was taken with Russia and other non-member countries that agreed to collaborate with the production cut.

On this occasion, Russia is not convinced of a production cut. Putin has done his job and has been rigorous in managing the Russian budget. This year, the Kremlin would require a price of \$53 for a barrel of oil, and \$44 for the next two years (2020). When the oil price fell in 2014, Moscow needed prices to be around \$ 110 to balance its budget. Now, the needs of the Kremlin are for economic growth (oil volume) and not so much for oil prices.

OPEC will remain the speaking podium of Saudi Arabia. However, the struggle between Sunnis and Shiites within the organization will lead Riyadh to consider taking unilateral actions, as it happened with the unilateral cut of 500,000 barrels per day.

The three major suppliers, Russia, the United States and Saudi Arabia, will determine the future supply of the oil market, despite what is agreed by the rest of the 14 OPEC countries. So, in the end, OPEC will cease to be functional to "coordinate and unify oil policies to guarantee fair and stable prices for oil producers". It will remain as the center for research and monitoring of the oil market.