"OPEC, oil Prices and the US: Reason for and solutions to the current crisis"

Summary of a 'Gulf International Forum' Webinar

15th June 2022

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Overview

The importance of this webinar is not so much as to what was said but the fact that the topic for which academics have no answers to is so important and critical for the US and especially the Biden administration in the coming months before the 2022 Congressional elections.

Halfway through 2022, global oil prices remain at historic levels. On May 31, barrels of Brent crude traded at $115—a remarkable spike from $79 per barrel just six months ago. The crisis sparked by this meteoric price increase has been long in the making.

In 2021, the price of oil rebounded as the global economy recovered from the COVID-19 pandemic. Then, on February 24, 2022, Russia invaded Ukraine, ratcheting prices further upward. The tumult caused by rising oil prices has reached the United States, where gasoline prices have soared above $5 a gallon, setting records. Higher prices at the pump will have knock-on effects that go beyond limiting summer road trips, however, and will almost certainly slow economic growth and contribute to even greater domestic inflation.

Though the largest single producer of oil, the United States must rely on other states and producers to reduce global oil prices. To this end, no grouping is as consequential as OPEC. From its inception in 1960, OPEC has maintained a tenuous relationship with the United States as both tried to influence or balance oil prices. Today, OPEC's perceived inaction in the face of skyrocketing oil prices once again threatens to poison the United States' relationship with Saudi Arabia, the de facto leader of OPEC and a state with whom relations have been strained under President Biden's administration.

In 2015, OPEC formed an alliance with Russia and other non-OPEC oil producers, known as OPEC+, to control global oil prices through close coordination of production levels and quotas between Moscow and Riyadh. Increasingly frustrated by the status quo, The US Congress appears poised to intervene in this growing dispute through the '*No Oil Producing and Exporting Cartels, or NOPEC Act*'. Originally introduced 19 years ago, the bill has resurfaced once again this year as the U.S. government seeks to weaken the price-setting powers of OPEC.

As a result, NOPEC would thus allow U.S. federal courts to prosecute OPEC member states for coordinating on global oil prices, undermining the purpose and viability of the Organization itself.

In a webinar moderated by **Rachel Ziemba** (*Non-Resident Fellow, Gulf International Forum*) a panel of experts looked at the current status of the 'OPEC+ grouping' and speculated about its actions or its potential survival as a result of developing circumstances related to possible boycott of Russian oil or mounting U.S. pressure on Riyadh. They also speculated about the outcome of Biden's impending trip to Saudi Arabia.

Overview

1. **Dr. Carole Nakhle** (**F***ounder and CEO, Crystol Energy)*

- The Standoff between the US and the Kingdom of Saudi Arabia (KSA) has now been in force for the last 4 years.
- Even before, the positions held and the statements that were made by Obama especially given his determination to attain a nuclear agreement with Iran (JCPOA) had already dismayed many Gulf leaders and especially those in Saudi Arabia.
- Today, it is fair to say that the Saudis do not seems to be very excited about the Abraham Accords though they are anxious to see that Israel acting as a counterbalance to Iran (though they are unlikely to work closely with Israel or seriously produce more oil)
- Also, it is a fact that the 'Shale Revolution' in the US has had a dramatic and adverse effect on both US-KSA and US-OPEC relations.
- Furthermore, as a result of the 'Shale Revolution' the US became a net exporter of energy and as such a competitor to both KSA and OPEC.
- Ironically, in April 2020, when oil prices collapsed, the US acted as an intermediary between KSA and Russia because mainly of its own interests. Today, so far the Saudis have not reacted to the fact that

Russia has been selling oil to its main customer China (who buys 2.2 mbd of KSA oil) at a discounted price.

- Given this background, in the aftermath of the Ukraine War, OPEC and especially Arab oil exporting countries (i.e., 'spare capacity' producers such as KSA, Kuwait or UAE) have not been at the forefront of "helping the US" .
- Current sanctions on Russia are not expected to come into play until December 2022 which is "long way away". Meanwhile, both France and Germany are still buying huge quantities of Russian oil (bearing in mind that while sanctions don't affect the US, they have serious repercussions for Europe).

2. **Dr. Jean-François Seznec** *(Founder and Managing Director, the Lafayette Group LLC and former Adjunct professor at the School of Advanced International Studies)*

- In line with Donald Trump, what MBS is most interested in at this time is the concept of 'M A G A' or 'make Arabia great again'. For this a great deal of money is required and the current oil prices is providing a great opportunity.
- This has resulted in an intensified competition between the civil service and PIF ('The Public Investment Fund' which is the sovereign wealth fund of Saudi Arabia. - the largest sovereign wealth funds in the world with a total estimated assets of $600 billion) is playing a huge role in making the implementation of those ambitious dreams possible.
- It follows that any request by Joe Biden for an increase in production of crude oil by the US, will not meet Saudi needs or expectations, especially as the Russians are now providing crude oil with a 30% discount to the Chinese.
- While current world demand is considered to be 99 mbd (million barrels per day), the drop in Russian production as a result of recent sanctions has been 1 mbd. On the other hand, KSA production currently at 10.4 mbd (in addition to 1.5 mbd of products) is expected to reach 11 mbd by September of this year.
- As a result of price increases, at the end of the first quarter for 2022, KSA had earned around $96 billion (80% from crude oil and some $21 billion from chemicals and products etc). providing the Saudis with a trade surplus of $51 billion.

- This has meant that Saudi Aramco (of which only 4% has been transferred to PIF) will be earning somewhere in the vicinity of $300 billion for 2022 (with $86 billion having been obtained in the 1st quarter).
- The Biden visit is important because it will serve to reconnect the US with Saudi Arabia but it is unlikely to change any of the current dynamics in the oil market.

3. **Dr. Jim Krane** (**T***he Wallace S. Wilson Fellow for Energy Studies, Rice University's Baker Institute for Public Policy).*

- As seen in Houston, now dubbed as the ;energy transition capital of the world' (as opposed to previously being called the 'energy capital of the world') , the future of the oil market will be determined by the following players in the order of their importance:
  - First tier player will be 'market forces'
  - Second Tier: State and local players – especially in states like Texas and Louisiana.
  - Third Tier: Though somewhat marginalized at this time, the 'Federal government'
- The future of the 'Strategic Petroleum Reserves' in the US, something that Biden has played around with a great deal in the course of the current year for trying to keep gas prices down at the pumps is quite uncertain and there is a huge possibility that the whole concept- something that has been quite important since the late 1970s, may be done away with and abandoned completely in the near future.