XIII OPEC + Ministerial Meeting. The role of Saudi Arabia.

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1/15/2021.

The oil market in 2020, a year not to forget.

The fall in oil demand -originally estimated at 15% because of the sudden stop of the world due to the pandemic-, accompanied by excess production and inventories, caused the price of a barrel to fall from US $ 56 to US $ -37.6 between January and April 2020. This led OPEC to appeal to the 2016 Declaration of Cooperation to join forces in the recovery of the price, attempting to balance the market. The organization brings together 13 producers with ample exportable capacity, which pump 33% of the world's oil and have more than 70% of proven reserves.

Four ministerial meetings (Ext) OPEC + were necessary between April, June and December to withdraw 10% of the production; an approximate of 9.7 mmb/d; a figure close to 1.900 million barrels between May and November, propping up the price of Brent to US $ 50.50 and the WTI to US $ 47.23, by the end of the year. All that driven in part, by the recovery of the demand in Asia's, and better perspectives for 2021, as vaccination against COVID19 begins.

Tension was present at the meetings by the time when Russia refused to accept the production reduction proposed by Saudi Arabia, unleashing a brief but aggressive price war, in March. The motivation: to preserve market shares and to punish the producers of American Shale oil. Riyadh and Moscow have different views. Mexico also opposed cutting 350 mb/d in June, accepting only 150 mb/d, while the US offered to cover the remaining 250,000.

In December, OPEC + agreed to monthly meetings and a production increase by 500 mb/d; reducing cuts from 7.7 to 7.2 mb/d. The organization maintained the call to comply with the agreements, extending the compensation period until March; since several producers have yet to withdraw 2.55 mmb/d. Iraq with 598 mb/d and South Sudan with 336 mb/d. Libya and Nigeria would be on the side of the undisciplined.

Saudi Arabia: "The guardian of the oil industry".

Now in 2021, the 13th OPEC+ Ministerial Meeting was held between January 3-5, with extensive and complicated negotiations. At the meeting, Russia and Azerbaijan requested to increase production by 500 mb/d. However, the proposal was not accepted, approving only 75 mb/d: 65 for Russia and 10 for Azerbaijan; between February and March. Besides that, December agreements were ratified.
OPEC production, excluding Iran, Venezuela and Libya -except for the cuts- was set at 26.68 mmb/d, while non-OPEC production at 17.11 mmb /d; a combined total of 43.85 mmb /d, almost half of world oil production. It should be noted in 2020 the Non-OPEC produced 62.7 mmb /d.

After the meeting, the Saudi Energy Minister announced the Kingdom's decision to reduce production by 1mmb/ d for February and March, surprising everyone, but propping up the markers by 5%. Its quota will be 8.12 mmb / d for February and 8.05 mmb / d in March. The controversial measure, taken outside the coalition and rejected by Russia, was justified by Abdulaziz Bin Salman*: "We are the guardians of this industry"*, therefore, "*… we have the responsibility to take care of the market and we will take the necessary actions*".

The announcement opens the discussion about potential motivations, just a few months after having assumed the opposite position, increasing production in order to punish high-cost producers. From our point of view, the decision has more political and geopolitical reasons than economic or technical elements.

The risk of new outbreaks of the Coronavirus in Europe, US, Asia and Latin America would mean the extension of confinement, the decrease in economic activity and the reduction in oil consumption. In addition, the uncertainty about the efficacy of vaccines and the slow application, would keep the markets in a fragile balance.

• This forecast is an alert for OPEC +, especially for AS, that counting on the support of the US, has consolidated a leadership within the organization, since 1990. That's the reason why the country opts to act cautiously and early in the face of a depressed first quarter of the year. It should be noted that the Arab nation saw its income fall in 2020, having to cut public spending by US $ 13,000 million.

• Although the price of the main markers has reached the best levels in the last ten months, and institutions such as Oxford Economics maintain that world GDP will grow 5.4% in 2021; the factors that could alter the supply-demand balance are still there. The recovery of the price will lead to an increase in extraction in countries like the US, whose companies are reluctant to sacrifice production. Obviously, SA's decision benefits them.

• Saudis and Russians are the second and third world producers, but at the same time the two largest exporters. Riyadh is aware of the strategic importance of the Eurasian nation, a country facing similar problems, approached from different perspectives. Both the slight increase in Russia's production quota and the unilateral cut in SA generate short-term benefits for Moscow, an important player in balancing the market.

• The decision is also an attempt to endorse SA's leadership within the organization, counterbalancing Iran, -its main contender. In turn, it represents a message to the international community by showing itself as a responsible actor, by complying obligations and maintaining solidarity in times of pandemic.

• For the first time in three decades, the USA stopped importing oil from SA, a close political and commercial partner since 1945. This is the materialization of a strategic objective pursued by the Americans since Nixon's administration (Independence Project), aiming to reduce the dependence on imported oil, especially from the Middle East. In this regard, the data is revealing, and concerns on the Kingdom's side are understandable:

According to the Energy Information Administration (EIA), the USA reached the import peak in 2005 with 12.54 mmb/d. Since then, it has fallen to 3.81 mmb/ d in 2019, a reduction of 8.73 mmb/d, 69.3%. 1.86 mmb /d were imported from the Middle East in 2014, by 2019 that amount had dropped to 910 mb / d, about 950 mb / d less (51%). Imports from AS went from 1.16 mb / d in 2014 to 528 mb / d in 2019, a cut of 632 mb / d (54%). Even non-OPEC imported 2.07 mmb / d in 2014, and in 2019 it acquired 765 mb / d, a decrease of 1.30 mmb / d (62%).

• Since 2008, oil production in the USA has steadily increased, through the massive exploitation of Shale oil, reaching 10.4 mmb/d in October 2020. On the other hand, crude imports have fallen; allowing the country to resume status as an exporter since 2014, by selling crude and refined products to 50 countries, for a total of 4.37 mmb / d in 2020. This new dynamic adds a competitor to the oil market.

• With the pandemic, the energy transition has entered a new phase, with positive results on the environment as a result of the confinement and the reduction of economic activity. This situation could be an opportunity for renewables to increase their presence in the energy matrix, in the face of decarbonization. However, the road is full of challenges and could also represent an opportunity to extend oil dominance, especially now, when the USA -the world's leading consumer and producer- has resumed its role as an exporter.

• The Kingdom considers more beneficial to withdraw oil from the market and strengthen the price; while Asia is preparing to maintain the refining circuit. Hydrocarbons represent 63% of Saudi exports and main clients are China with 14%, Japan 11%, India 10% and South Korea 9%; for a total 44%.

• Lastly, the uncertainty regarding the policies implemented by the Biden administration represents a challenge to Riyadh's expectations on bilateral relationships; in the oil sector and the rest of the agenda, where issues related to Qatar, Yemen, Turkey, Iran and Syria stand out. This situation reinforces the leading role of the Arab nation in the Persian Gulf to guarantee the security of the area.