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Oil crisis

What is the significance of the Saudi oil decision?

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As usual, given the kingdom's dominant weight in the global oil market, the Saudi role was decisive in the decision taken a week ago by OPEC+, i.e. the expanded OPEC that includes a number of non-OPEC oil-exporting countries, most notably Russia.

This decision, which called for the reduction of oil production in order to maintain the level of prices, caused a major international uproar, especially in the United States, not because of its actual impact on the oil market as much as for its significance regarding the US-Saudi relationship. This is because OPEC production during the months preceding the meeting was already below the previously set ceiling due to the inability of many countries to increase their production for technical reasons, while other countries, including the United Arab Emirates, want to increase their production after having invested in strengthening their extractive capabilities.

In fact, the biggest consideration in determining oil prices is not OPEC or OPEC+, but rather the fluctuations in supply and demand in the global market. From this angle, OPEC+, by its last decision, contributes to the reduction of global oil consumption by helping to push the global economy towards the recession that threatens it due to a number of factors. Among these are the effects of the great global crisis generated by the Covid-19 pandemic, in particular the contraction of the Chinese economy due to Beijing's insistence on practicing a policy of zero Covid through lockdowns, a policy whose cost to the Chinese economy has become prohibitive and to which there is no way out in the foreseeable future except by abandoning it. The problem is that the virus is constantly mutating, while the continuous lockdowns prevent the creation of mass immunity in response.

Of course, the Chinese problem is compounded by the crisis resulting from the Russian invasion of Ukraine, whose economic consequences are worsening, not only at the expense of Russia, but at the expense of the European economies in particular. The Russian economy has benefited from the rise in fuel prices, especially gas, resulting from the escalating European boycott, which has partially compensated for the losses it incurred as a result of the war and other sanctions imposed on it, while Europe is the region primarily affected by that rise in prices. The Russian invasion put Europe in an embarrassing position, as it did not want to appear to be financing the Russian war machine, even though it was aware that Russia would still find customers to buy its fuels by virtue of the nature of the market for those materials.

The OPEC+ decision serves the Russian interest in that it is in line with Russia's having to reduce its fuel production for several reasons, including the gradual blockage of European markets and the technical problems caused by the sanctions. But what about the interest of the Saudi Kingdom, which has the upper hand in the decision to reduce output, since it means reducing its production in the first place, given that it has the largest production margin? Evidence indicates that its decision, for which Mohammed bin Salman is fully responsible, contradicts its true interest for several reasons. The decision will exacerbate the tendency of the global economy to stagnate, and thus its outcome in the medium term will be a greater reduction in demand than would have occurred otherwise, by exacerbating consumers' fear of the economic crisis.

Moreover, this behavior of the kingdom contradicts the behavior that it used for several decades, after it nationalized its oil industry half a century ago, namely, complicity with the United States, its protector. The latter relied on the kingdom to run the global oil market in line with its interests, a practice that culminated in the oil price war that the kingdom launched against Iran and Russia in 2014. This played an important role in intensifying pressure on Tehran, leading it to sign the nuclear agreement in the following year, and in increasing the weight of Western sanctions on Russia, imposed on it following its annexation of Crimea and its military intervention in eastern Ukraine.

What is the significance of the Saudi oil decision?

With the OPEC+ announcement, the kingdom is taking a decision that serves the Russian interest par excellence. Indeed, it appears as if it stemmed from an explicit desire to support the Russian position in the Ukraine war. This has two consequences. The first is that the Saudi decision reinforces the European feeling that the dependence on hydrocarbons is a source of multifaceted harm, including great environmental damage and political harm, since these fuels have become more than ever a political weapon in hands in which Europe no longer has any confidence. This will accelerate European endeavors to dispense with hydrocarbons through the development of alternative energy sources, both renewable and nuclear. Europe's tendency to eliminate hydrocarbons had begun to grow under the pressure of the environmental issue, and the Russian invasion of Ukraine has given it a strong impetus, which the Saudi decision will only help accelerating.

In the United States, the Saudi decision was interpreted as a stab in the back and a siding with Russia in the war in Ukraine. US President Joe Biden himself expressed his disappointment with Riyadh's decision, and is facing pressure within his party from those who call for punishing the kingdom by withdrawing US military protection, including the withdrawal of the Patriot air defense system supervised by the United States inside the kingdom. What increases the impact of the Saudi decision is that the US president had retracted his declared campaign position on the Saudi crown prince, and visited the kingdom and met him a short while ago, placing the strategic interest created by the Ukraine war over the moral stance regarding the assassination of Jamal Khashoggi.

A conviction has become firmly established among Democrats that Mohammed bin Salman, by his decision to put pressure on oil prices to rise, thus exacerbating the general rise in prices, actually wanted to enhance the chances of the Republicans in next month's congressional elections. The Republicans are indeed focusing their campaign on high prices, which they attribute to Biden's economic policy, and they have described the Saudi decision as a sign of the US president's failure in foreign policy, a broad headline under which they put the Afghan retreat and the inability to deter Vladimir Putin from invading Ukraine. It is no secret to anyone that the current Saudi regime prefers the Republicans and strongly hopes that their friend Donald Trump will return to the White House in two years.

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