

Doha Talks: Economic Failure or Geopolitical Success?

Written by Ashay Abbhi

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ASHAY ABBHI, MAY 5 2016

The much anticipated meeting of oil producing majors of the world was held in Doha on 17th of April. Heads of the OPEC plus top non-OPEC producers congregated to brainstorm and solve the current oil price crisis, a solution much needed for the lesser members of the cartel, such as Venezuela. With economies at risk, prices at the bottom, revenues dwindling and governments being overthrown all around the world, the meeting was expected to bring some order to the chaos ensued by the steep decline of oil prices in the second half of 2015.

As the much-hyped meeting got underway, speculators got to work and oil prices witnessed an increase, with Brent trading at \$43.90 and WTI at \$41.57 per barrel, on 15th April, just ahead of the conference. But the market could not carry the momentum for long as expectations from Doha ebbed, and prices fell later the same day. The turbulence continued with oil hovering in the sub-\$40 range as the meeting concluded without any signatures on the draft agreement. The reason given for no consensus on freezing production was Saudi Arabia's refusal to cut production unless its Iran, agreed to do the same, because it feared a loss of its market share. Game theory was at work.

Popular opinion has declared the Doha talks a failure. But was it really a failure for Saudi Arabia? What are the implications for Iran? What happens to the poorer OPEC members when the de-facto head of the cartel threatens to increase production to 11.5 million barrels per day (mbpd) immediately and up to 12.5 mbpd over the next six to nine months, more than the 10.2 mbpd it pumped out in March 2016? Do the Venezuelas of the world have any hope? Was the decision to not sign the agreement an economic strategy or a highly motivated political tactic?

Saudi Arabia's confidence to take on the oil world, and consequently the political world, comes from its oil economics. For a country whose cost of oil production is one of the lowest in the world at \$9.90 per barrel, oil price falling to even \$20 per barrel, as Al Naimi had once mentioned, would mean survival.

While desperate for relief OPEC members, some with higher per barrel production costs, wanted the freeze deal to go ahead, Saudi Arabia turned the conference into a political game.

If the official reason for the failure of the talks was Iran, the actual reason for its success seems to have less to do with economics but with the geopolitics and the tactical maneuvering of governments to achieve personal political gains.

In the economic failure of talks lies the political success for Riyadh.

The Doha talks, which were attended by the Energy Minister Al Naimi and controlled by the Deputy Crown Prince Mohammed bin Salman bin Abdulaziz Al Saud, has cast shadows on its intention to freeze production. The Prince's intervention, first to disengage Iran and then to bring it back on the table, is being considered a geopolitical masterstroke.

Saudi Arabia – Iran

At a stage where the czars of the oil world converged, Riyadh found Doha to be the appropriate podium to assert its domination over Tehran by rendering it irrelevant. After Yemen and Syria, Saudi Arabia and Iran's political rivalry has

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further polarized the region, with the world having to bear the bitter consequences. But Iran has its reasons – largely economic partly political – to not sign the freeze deal. Iran, after a long period of sanctions, has finally been able to pump enough oil to support its nearly failed economy but has been hit hard by the rock-bottom prices. Since the quality of the revenue generated is not enough, the only thing that can save Iran from going into a deep recession is the quantity of its oil sold. With the freeze deal signed, it will have to cut the production it had planned to increase, leading to a stunted economic growth. At \$12.60 per barrel cost of production, even at \$30 per barrel Iran is making profit, although still not enough to stabilize its budget. Additionally, oil is Iran's only useful offering to the world as it has limited political clout in the region and is only beginning to warm up to the US. Agreeing to the deal would mean it has to freeze production at much lower levels than its intention, taking away its only leverage. This would also suggest a defeat at the hands of the Saudis, whose production in terms of market and political share is nearly 10 times as that of Iran.

On the other hand, Saudi Arabia may have unwittingly given Iran the high hand on the freeze deal issue. By not being allowed to attend the meeting, Tehran does not have to say no to the deal. By the time Riyadh called it back to the table, it was too late. To justify its stand on not agreeing to the deal, Iran has to only point towards the withdrawn invitation instead of listing economic and political reasons. Russian Energy Minister Alexander Novak has done precisely that in his statement on the Doha talks insinuating that the failure to reach an agreement cannot be Iran's fault when it was not even allowed to participate, suggesting collective culpability.

Russia – Saudi Arabia – Middle East

Putin's antagonism towards the US and its allies is no secret. Neither are its plans to enter the great game in the Middle East. By coming together with the rest of the world on the same platform in Doha and agreeing to a freeze deal despite a shaky economy, Russia, a major non-OPEC producer, has made clear its intention of being a country that supports its fellow producers. This comes as a contrast to the Saudi Arabian policy of controlling not only the cartel but also nearly monopolizing the oil market by threatening to flood it further.

Saudi Arabia's move to not sign the deal has upset Russia's Middle East agenda. After two months of negotiations with Saudi Arabia, Russia had prepared a draft agreement to be signed in Doha. Riyadh changed tracks last minute, only to leave Moscow high and dry. With Russian intervention in Syria, much to the chagrin of the US and its allies, the Doha summit was seen as an opportunity by Riyadh to push them back. Russia's populist approach to sign the deal would have earned it friends in the region, besides Iran and Iraq, translating into business opportunities and political allies. However, with the deal not being inked, also because of Russia's staunch support of Iran's refusal to sign it, the entry seems to have become a bit more difficult. Whether Kremlin misread the signs from Riyadh or was blinded by its 'victories' in Crimea and Syria, this has certainly left it red-faced.

Saudi Arabia – US

It would have been unimaginable few years ago for Saudi Arabia to ignore the USA. However, a rift between the two countries was created after 2009, when the US started producing shale oil in quantities that changed its status from that of a net importer to a net exporter. One of the key reasons for the oil glut and the consequent low oil prices is the over-production from the US. Not only has it become self-sufficient in oil and exports but the amount it used to import comes to the market now, creating an oversupply.

Falling prices have severely hit Saudi's oil revenue; but because its coffers can bear the shock and Aramco has low production cost, it continues to pump oil without any issues. Both Saudi Arabia's revenue and market share have been compromised with the entry of the US in the non-OPEC exporters list. At the same time it has been struggling to keep China as a client, with other OPEC countries vying for a piece of the insatiable energy hungry nation; with more oil in the market as well as exporters to compete with, Saudi Arabia has found itself on the opposite side of the US. Its deliberate attempt to keep the prices low to force the shale producers of the US out has so far not entirely worked but it continues to hope for the best. Forcing the high cost producers from the oil market, majorly the US shale oil and Canada's tight oil companies, has been one of the reasons behind Riyadh's refusal to sign the Doha agreement.

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The political motivation, however, comes from the Justice Against Sponsors of Terrorism Act (JASTA) bill that is pending for approval by US Congress. Under the act, it will be possible for victims to sue Saudi Arabia for its alleged involvement in the 9/11 attacks. Infuriated by the move, the Saudi administration threatened to pull out its investments in the US, in the range of \$750 billion. This could severely impact the US economy, even pushing it into recession deeper than the Great Depression something that has led the Obama administration to try to block the bill. Riyadh understands that low oil prices will ensure limited revenue and financing for the American shale oil producers, stalling the country's economy to the point where Saudi investment assumes extreme importance.

The Future

Riyadh has pulled off a clever geopolitical maneuver by not signing a deal that it prepared, negotiated and agreed to. It has not only politically stalled Russia and Iran but has also been a sudden setback to the US. The world's oil economy is now under Riyadh's singlehanded control and it does not seem to be willing to relinquish it, which has put the relevance and future of OPEC under question.

Russia's Middle East plans are unlikely to move beyond Syria for now. Iran will continue to increase production as planned, even as it reels under pressure and needs greater oil revenue to sustain the economy. Unless OPEC's meeting in Vienna in June creates a positive outcome for the freezing of oil production by the members, countries like Venezuela will continue to remain depressed with little respite, and more of OPEC's lesser members might fall prey to the dark clutches of recession. The oil prices will continue to hover around the \$40 per barrel mark for at least the next twelve months, until which time the glut is expected to start flowing.

While it will be business as usual for Saudi's oil rigs, the Palace will be celebrating the success of the Doha talks, one that has firmly positioned Saudi Arabia as a global political leader force to reckon with, not only in the Middle East but also in the West.

About the author:

Ashay Abbhi is a Research Analyst based out of Noida, India. He works in the Energy domain and was a Lecturer at the London School of Energy Studies before entering the corporate sector as a researcher.