

Oil Prices, OPEC, and Oil Crisis: Collateral Damage in a Greater Game

Written by Ashay Abbhi

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ASHAY ABBHI, JAN 12 2015

With the oil prices tumbling downward, people in certain countries like India are rejoicing. But there are some who are feeling the brunt of the dipping prices, as members of the Organization of Petroleum Exporting Countries (OPEC) have declined to cut their oil production to help the prices rise.

The Venezuelan president's five-country tour to arrest the effects of the tumbling oil prices that have severely dented the economic situation in his country is expected to accomplish two things. Firstly, to receive monetary loans payable in oil future contracts. Second, to exhort other member countries to cut back on the extent of their oil production. Venezuela's economy is highly dependent on the revenues received from the export of its oil. In the wake of the steeply declining oil prices, the country has struggled to keep itself afloat. However, it has now become imperative that strict measures be taken to avoid other OPEC members from meeting a similar fate.

The over-supply of oil has saturated global markets, pushing the prices down. Traditionally, a situation of this kind is tackled tactically by member countries by reducing their production till the supplies last, and prices start rising again. After the prices reach a stable (read: desired) point, the countries continue producing oil at the same or slightly elevated levels. The case of the latest glut takes a curious diversion from this tradition. The member countries have refused to cut production levels, forcing the situation to escalate.

The OPEC trump card, whose job is to keep countries from turning rogue, Saudi Arabia, has issued an outright refusal to cut production. Al Naimi has declared that production will continue at the same level and could even increase depending on the demand of the customers. The reason for this was a very simple economic concept: fear of reduction in the country's share in the global oil market. Saudi Arabia is at a nervous crossroads of politics, where it has to salvage its lost position what with markets being oversupplied already; to mitigate the deteriorating economic conditions as the revenues from oil decrease considerably, and, to keep up the commitment it made to its Western Allies while watching monarchy being overturned all around it.

But the timing of this crisis makes one doubtful of the country's intentions. Could this situation have been engineered, and therefore avoided? Has Saudi Arabia now become the rogue member?

Saudi Arabia's actions could be a part of a larger game, the classic geopolitics. It is not difficult to decode the entangled relationship between oil, energy and international politics, atop which sits the White House. The oil price war may be targeted at two very specific players – Russia and Iran, both of which are currently the cynosure of the US' eyes.

Driving oil prices down would reduce the foreign currency entering the coffers of Russia. This could well be the final blow to completely cripple Russia, as the country struggles with an already injured economy and depleted resources after the recent Crimean occupation. Continuously falling oil prices will require the Kremlin to revisit its budgets and policies, especially the foreign policy, to save whatever is left of its near super-power status.

Iran has already accused Saudi Arabia of conspiring against it by not cutting back on oil production. This could well

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be true. The US might be using the Saudi Arabian oil to coerce Iran into budging enough to sign a nuclear deal by cutting off its oil revenue. Already reeling under sanctions, the only thing sustaining Khameni's administration was the oil and gas export. With the profits from it drastically reducing, Iran will not be left with many options except looking towards the West for a relief in sanctions in lieu of the nuclear power deal that will gravely restrict its nuclear capability.

Another casualty of the decreasing oil prices would be China. While low oil prices are a boon for emerging industrialised countries like China, it could also be part of the US strategy to contain its increasing influence. China has massive plans to develop its shale gas and become self-sufficient in energy. This was being managed with the help of international companies who brought about the shale gas boom in the US. However, now with the low revenues and high costs of production, these companies are looking at either scaling their investments down or deferring projects. This could temporarily derail China's plans to become a global superpower. China's rise would be detrimental to US plans in the continent as well as in the Middle East, especially Iran. Maduro's stopover to meet the Chinese premier and ask for loan against oil futures could very well accomplish Washington's plans.

The fall in oil prices is certainly anti-climactic when talking about OPEC, a cartel responsible for the stabilisation of international oil prices. By refusing to cut production, it has jeopardised the economy of its member states. There are countries like Libya in OPEC that are already struggling with broken economies and reduced production. Then there are the Venezuela's of the world who do not have much except oil to sustain their economy. In fact, very few OPEC members are immune to the ill-effects of declining prices, but not forever.

The role played by non-OPEC members can also not be denied. Supplying about 60% of the world's oil, these nations can restrict their production. The US has become the largest oil producer in the world, which gives it the power to affect the prices by cutting its oil production. But neither the US nor its faithful ally Saudi Arabia has moved an inch on the subject, forcing countries into recession.

Economies of the OPEC members have been exposed to the imminent danger of collapsing, something that most of them would not have thought possible. Al Naimi may continue playing the vicious game but at some point in the future it will become difficult for the kingdom to preserve its economy (read: royalty). Whether the oil price crisis has been orchestrated to achieve the vested interests of the West or not remains to be seen, but there are consequences for almost every nation that range from a collapsed economy to deferred energy independence.

The international community is abuzz with speculation about the oil prices and its geopolitical effects. The question that hangs in the air is whether Maduro's pleas to Algeria, Iran, and Saudi Arabia are going to help salvage what's left of its economy and, in the process, save other oil dependent nations. Whatever may happen, Washington would not be lamenting at the troubled economies like Venezuela, which perhaps do not understand that they are just collateral damage in a much greater game.

About the author:

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