Oil Wars extend US control

By: Jamal Harwood*

With the price of oil now languishing at $33 a barrel, a level which hasn't been seen since 2008, the major oil producers of the Middle East have been heavily hit. Saudi Arabia in the most recent year has suffered with a budget deficit of $98 billion as a result. A shocking state of affairs for the world's largest oil producer. Economists struggle to explain the reasons for the precipitate drop in the oil price from over $100 a barrel to its current level - is the world economy really that bad where demand could drop so much? The answer is of course a mixture of the dampened demand through a slowing global economy including China, but also significant production increases on the supply side. Rather than balance lower demand with lower supply the leading producers upped production in 2014/15, a growth which included the US up by 31% which included bringing shale reserves on-stream (their oil production has doubled to 10 million barrels per day in the last 10 years). Saudi also led the way increasing production in the period by 14%.

The issue has in effect caused a split in OPEC dividing it into two camps; the Saudi/Gulf camp that have kept production high and the Iranian/Venezuelan camp that wanted deep cuts to maintain margins. The split was obvious at the Nov 27, 2015 Vienna conference, in which the Venezuelan representative walked out in protest, citing the unwillingness of Saudi and the Gulf states to cut production. With the US leading the policy, some have questioned their purpose, bearing in mind the obvious difficulties for several US shale producers who cannot remain profitable with oil lower than $60 a barrel [1]. The US's strategy in reducing the oil price has several key objectives.

- A lower price, it is felt will improve the US economy which remains languishing with 1 to 2% growth post the financial crisis (with lower oil supposedly giving consumers greater overall purchasing power).
- With several major powers including Russia and China threatening to conduct trade in their own currencies, and move away from the de-facto world currency of the last 60 years (the US dollar), a strengthening of the dollar is seen as pivotal in retaining its global status.
- To pressure the Russian economy as a resource dependent producer regarding its independent Ukraine policy.
- The opportunity to reduce oil prices strengthens US control over global reserves, enabling significant stockpiling of oil (global storage facilities are maxed out) and perhaps even more importantly to increase pressure upon the Middle East producers to liberalise their economies along Western guidelines.

It is this last point which is troubling for Muslims of the region. Large budget deficits force nations into debtor status, effectively forcing them to come under the pressure of creditors. The Saudi Finance Minister and Deputy Crown Prince Muhammad bin Salman boasts of a "Thatcher revolution for Saudi Arabia" in a recent Economist interview [2]. With their growing budget deficit we will see the typical enforced third world liberalisation policies hoisted upon the Saudi Kingdom and other Gulf countries – Key asset privatisations, bond issuances at interest, sell offs of state assets including land around Mecca and Medina, new taxes including VAT which hits the poor most, and a "sin tax". All of which are counter to Shara' and entrench greater western control. The "jewel in the crown" the largest oil company in the world – Saudi Aramco will also be subject to creeping privatisation with a new IPO (Initial public offering) which will be open for foreign interests to buy and increase control. Saudi officials have also spoken of privatising: Healthcare, the Educational sector, Military industries, and other state owned or controlled companies. So the oil price war will hurt the oil producers in the short term and lead to a loss of control over key assets in the medium to longer term.

With respect to US global standing and hegemony of the dollar in Eurasia. Over the last 10 years an axis has been formed by Russia, China and Iran (to a lesser extent), in a bid to limit US influence. The Silk Road Initiative, the Eurasian Union, the Friendship pipeline, the establishment of the Asian development bank and the Asian infrastructure investment bank, are all examples of strategies designed to limit US influence. Collapsing the oil price allows the US to economically hurt two of the members of the axis, and therefore severely impair their ability to follow through with their plans.

[1] http://www.rigzone.com/news/oil_gas/a/122022/IEA_Shale_Boom_to_Turn_US_Into_Worlds_Largest_Oil_Producer

[2] http://www.economist.com/saudi_interview?fsrc=scn/tw/te/bl/ed/transcriptinterviewwithmuhammadbinsalman

*** Written for *Ar-Rayah* Newspaper – Issue 60**