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Saudi Arabia, OPEC's Anchor, Ponders a Future Without the Cartel

Kingdom, under pressure from U.S. and investors, researches possible impact of a breakup of oil producers' group



Saudi Crown Prince Mohammed bin Salman has sought to divert his country's economy away from oil. PHOTO: SAUDI ROYAL COURT/REUTERS

By Summer Said and Benoit Faucon

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Saudi Arabia's top government-funded think tank is studying the possible effects on oil markets of a breakup of OPEC, a remarkable research effort for a country that has dominated the oil cartel for nearly 60 years.

The effort coincides with new pressures on the Saudi government, including from the U.S., where President Trump has accused the cartel of pushing up oil prices, and from investors who distanced themselves from the kingdom after the brutal killing of a U.S.-based Saudi journalist.

While the think tank's president, Adam Sieminski, said the study hadn't been triggered by Mr. Trump's statements, a senior adviser familiar with the project said it provided an opportunity to take into account the criticism from Washington. Depending on the findings, the study could offer a defense of the cartel and the Saudi role in it.

The research project doesn't reflect an active debate inside the government over whether to leave the Organization of the Petroleum Exporting Countries in the near term, according to people familiar with the matter.

Senior Saudi officials see the study as a high priority economic-policy inquiry, according to these people. Mr. Sieminski said he ordered the study, and that the analysis isn't unusual and explores topics his

researchers normally delve into.

The report is part of a wider rethinking among senior government officials in Saudi Arabia about OPEC, according to the people familiar with the matter. Officials are grappling with the assumption—shared increasingly in the oil industry—that oil demand will one day peak, the senior Saudi adviser said.

In this context, the study is seen among senior officials as an exercise in gaming out how markets might react if demand falls so much that OPEC loses sway and disbands, the adviser said.

For decades, Saudi Arabia and its fellow members have insisted the Organization of the Petroleum Exporting Countries is a crucial global economic institution—a forum by which big producers can mete out oil production to keep prices from getting too low or too high.

Critics have accused OPEC of manipulating oil prices at the expense of big oil-consuming economies such as the U.S., and Mr. Trump has been outspoken in his condemnation. A group of U.S. lawmakers has pushed legislation that would effectively label OPEC an illegal cartel.

The proposed legislation, dubbed NOPEC, has withered during several U.S. administrations. Backers have said they think it might fare better under Mr. Trump.

“The kingdom knows demand for oil won’t last forever...so you need to think past OPEC,” the senior adviser said. “You also have a NOPEC act being considered” in Washington.

While there is no debate in the Saudi government about disbanding OPEC soon, senior government officials have recently started to question the longer-term rationale for the cartel because of the clout that Saudi Arabia and Russia alone can have on markets, according to another senior Saudi adviser.

Those questions have grown as Russia has worked more closely with Saudi Arabia in recent years. Russia and a group of allied oil producers joined OPEC in a deal about two years ago to rein in oil production amid superlow prices. The combined group’s leverage over global production succeeded in lifting prices—so much so that the group more recently agreed to open the taps again to cool them off. The two sides are slated to meet again this weekend in Abu Dhabi.

Despite the impact on global markets, the closer coordination has upset some OPEC members, who have complained they are being sidelined by decision makers in Riyadh and Moscow.

Spokesmen for the Saudi government and energy ministry didn’t answer requests for comment.

The think tank, Riyadh-based King Abdullah Petroleum Studies and Research Center, or Kapsarc, bills itself as an independent research institution. Its staff advises dominant Saudi agencies such as Saudi Aramco and the Saudi energy ministry.



Saudi Arabia's oil minister has long presided over OPEC as its de facto head. Above, Oil Minister Khalid Al-Falih, right, speaks at a meeting in Algiers, Algeria, in September. PHOTO: ANIS BELGHOUL/ASSOCIATED PRESS

Mr. Sieminski said the study was building on previous research that looked at the role of OPEC's spare capacity in stabilizing oil markets. The earlier work concluded that the absence of such a cushion "would lead to a more volatile price environment and be negative for the global economy," he said.

The research project comes as Crown Prince Mohammed bin Salman, who has broad control running the kingdom, has pushed in several directions to reshape his country's economy, society and its wider role in the world. Prince Mohammed pushed an initial public offering of a slice of Saudi Aramco, the country's state owned oil company—an effort that people familiar with the matter say has since stalled.

The IPO plan was a pillar in what the crown prince has called a bigger plan to modernize the Saudi economy. He has pushed big investments in global technology and finance, while the country has tried hard to lure foreign investors into the kingdom.

Those plans have been complicated after Turkey reported the killing of dissident Jamal Khashoggi at the Saudi consulate in Istanbul, and later said Saudi officials "at the highest levels" were behind it. Saudi Arabia has claimed rogue elements killed Mr. Khashoggi, without the knowledge of the crown prince.

The OPEC study aims to "assess the short/medium-term consequences of a dissolution of OPEC," according to an overview reviewed by The Wall Street Journal. It is intended to determine how the global oil market, and Saudi finances, would look "if coordination between oil producing countries disappear," according to the overview.

The overview describes two scenarios to investigate, if OPEC isn't in the picture: 1. All big oil producers, including Saudi Arabia, act competitively—fighting each other for market share; 2. Saudi Arabia, instead, attempts to leverage its massive oil output alone to help balance global supply and demand in an attempt to keep oil prices steady—similar to the role that members say OPEC plays today.

Two prominent Saudi government advisers, both central to the formation of the kingdom's oil policy, are scheduled to meet researchers on the project

weekly, according to the overview. Mr. Sieminski said contacts with the Saudi energy ministry were to provide data for the study.

The study comes at a time of particularly acute tensions inside OPEC, a fractious group on the best of days. Relations between longtime regional rivals Saudi Arabia and Iran, two of the group's most important members, have spilled into oil-policy

deliberations at the Vienna-based cartel.

Saudi Arabia is by far the most important OPEC member, accounting for more than 10 million barrels a day of the group's collective 33 million barrels a day of output. Saudi Arabia's oil minister has long presided over the group as its de facto head.

The kingdom has tended to play down publicly its leadership role, emphasizing what it and fellow members say is the group's consensus-driven decision making process. That has given individual members, including Saudi Arabia, some degree of cover from critics.

U.S. sanctions targeting Iranian oil exports have inflamed recent OPEC debates, with Iran's delegation accusing Riyadh of doing America's bidding inside the cartel. Saudi Arabian officials have expressed exasperation at times at what they call Iran's intransigence during what is supposed to be nonpolitical, oil-market debates.

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Write to Summer Said at summer.said@wsj.com and Benoit Faucon at benoit.faucon@wsj.com

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