Like the Rest of the World, Saudi Arabia Must Take Decisions that Could be Make or Break

It is hard to say what was first to rock humankind and society as we know it — the unstoppable advance of the coronavirus or the steep drop in oil prices. And experts fear that we are now already on the brink of a global economic crisis that could dwarf the Great Depression in the United States, which started in 1929 and lasted until the late 1930s. Although the world has yet to get to grips with the coronavirus pandemic and how the outbreak began, we know exactly who is to blame for the sharp fall in the price of “black gold” and when it happened.

The situation in the oil market took a turn for the worse after the OPEC+ deal broke down due to the actions taken by Saudi Arabia, after Crown Prince Mohammed bin Salman Al Saud decided he was the “king of the oil market” and could dictate how Russia was to sell its oil. As a result, Riyadh embarked on a risky adventure, as Saudi Arabia began driving down the price of crude, threatening that the Saudis were “preparing to flood oil markets.” This led to the price per barrel hitting a record low, even dropping below zero.

At present, the market is literally “flooded” with oil, and the effects of production being cut by 9.7 million barrels per day in an OPEC+ deal secured with Russia that still stands will only begin to be felt in May and June. Meanwhile, investors remain nervous about energy stocks, which has led to speculative trading, with some hedge funds benefiting from falling prices, but those who still hope the global economy could make a rapid recovery once the coronavirus pandemic is over are becoming fewer are far between.

The illogical policies across all sectors that have been poorly thought-out by the hot-headed Crown Prince are only bringing the Kingdom misery, turmoil, economic difficulties and other hardships. The impact of the coronavirus epidemic should not be overlooked, as it forced the authorities to impose a curfew, ban collective prayers in mosques and cancel the Umrah Islamic pilgrimage to Mecca and the massive annual Hajj pilgrimage, which account for up to 20% of the country’s non-oil GDP. All of these undoubtedly justified steps to combat the epidemic have been met with a backlash from the conservative Islamic segment of society, and have marred the image of the Saudi ruler as the “Custodian of the Two Holy Mosques.”

Finally, the Kingdom’s image and economy have been dealt another blow by the war in Yemen, which the Saudi authorities are spending huge amounts of money on, but they do not want to end the war, even though the latest reports from the front show that this futile proxy conflict has been a complete failure. However, they did not invade Yemen for no reason, and one of the most important reasons why Saudi Arabia and the UAE intervened in the Yemeni Civil War was fueled by a desire to get their hands on the country’s significant oil and gas resources.

The Saudi Crown Prince is still actively trying to interfere in Syria’s affairs, where people have been suffering years of civil war. Even the Arab press write that Saudi Arabia and other Arab countries in the Persian Gulf are the ones bankrolling the terrorists hiding among the local population in the Syrian province of Idlib. The Saudis are also trying to force the small independent emirate of Qatar to act in Saudi interests, despite its rulers being no less rich than the Saudis, and given that the Qataris are one of the world’s largest suppliers of liquefied natural gas (LNG), they are optimistic about the future.

It should be pointed out that Saudi Arabia had to adjust its budgets for a worst-case scenario in light of the low oil prices, and has had to fall back on the foreign exchange reserves it had accumulated over many years to cover a big budget deficit. However, these insanely low oil prices still pose a serious problem for the Saudi economy. While speculative trading cannot be ruled out, most Gulf producers including Saudi Arabia have long-term commitments with Asian clients, and spot sales are not a key part of their trade. These sales could mitigate some of the negative
effects of the current crisis, but the low prices on global oil markets will certainly result in huge losses for Saudi producers, and will even put the question of how the Kingdom will survive in future on the agenda.

China is gradually restarting its economy, but experts believe that China’s example does not offer much cause for optimism: it is estimated that in the short term, easing the restrictions that have been imposed on major economies will, at best, see 50 percent of the level of activity there had been before restrictions were imposed. Once the crisis is over, it will take many months for global energy demand to recover. In the end, Saudi Arabia saw sense and listened to the reasonable arguments being made by Russia in a world awash with crude, agreeing to major oil-production cuts. However, the US did not want to lose its market share, and has not committed to reducing output, despite the fact that most of the excess oil in the oversaturated global oil market is due to America increasing its production.

US shale oil is worsening an already oversupplied global market, as it is adding between four and five million barrels a day to markets. It would only be reasonable to pose the following question: why is Saudi Arabia, which dominates OPEC, constantly putting pressure on Russia, while at the same time the Saudis do not want to stop the flow of American shale oil? After all, markets were unstable even before the COVID-19 crisis, and they are likely to remain that way until we have a better idea of the economic consequences the pandemic will have around the world. Arguments that there could be a fast recovery once lockdown measures are lifted — a so-called V-shaped recovery or a slightly longer U-shaped curve — are beginning to sound less and less convincing. The energy market is one of the most sensitive sectors to the outlook for economic recovery, and oil prices look set to be sluggish for some time.

Despite the historic OPEC+ deal to cut production, storage space for oil is running out all over the world, as global demand falls amid the lockdowns, quarantines and travel restrictions being enforced in many countries. OPEC and other oil-producing nations led by Russia have indeed promised to cut output by 9.7 million barrels per day, starting in May. However, many analysts believe that there may not be any more empty oil-storage tanks left by as early as the middle of May. In this unprecedented global oil glut, some sectors of the oil industry and some oil-producing countries and their national oil companies (NOCs) are set to fare better than others, petroleum economics and energy policy expert Michael Lynch writes in an article in Forbes. It is perfectly natural for there to be winners and losers in any extreme market situation. At the same time, the oil industry is scrambling to stash crude oil and refinery products that no one really needs right now.

The biggest winners in the current market situation are the owners of storage capacities. Storage has been the most sought-after “commodity” in the energy market in the past month, as demand was crashing and supply was rising. Traders are scrambling to book offshore floating storage, and charter rates for supertankers are skyrocketing. Storage costs and costs for chartering tankers are surging, as traders expect demand to recover from the pandemic-hit plunge. Despite the actions of OPEC+ and G20 to ease the glut, all available storage space may be filled up within the coming weeks.

There have been a number of calls from world leaders who insist that we need to treat the global challenge of the COVID-19 pandemic and the steep economic downturn as a result of the unprecedented plunge in oil prices as an opportunity to allow common sense to prevail and end the futile wars being fought in Libya, Syria, Yemen, Iraq, Afghanistan and other conflict zones in the Middle East. If solidarity is what ordinary societies need now more than ever to fight this deadly virus and then fight to return to normal life, then it will take an even greater shared commitment and even more decisive steps to achieve peace in war-torn societies before it is too late. And this is where Saudi Arabia could play a crucial role as the leader of the Arab world in bringing peace to war-torn countries in the Middle East.

Saudi leaders need to rise above narrow-minded disputes and conflicts, which may be asking a lot and could be too great a task to achieve in such a short time, but key players in regional conflicts have the power to bring the warring factions to the negotiating table and encourage them to set their differences aside and work together in what has been called the “real battle” for humanity. The longer international powers continue to ignore the ongoing conflicts in the Middle East, using the excuse that they are too busy fighting COVID-19 and economic downturn at home, the greater the risk that this failure to act will backfire on them. Europe could regret standing by and doing nothing now, as a large-scale health crisis in the Middle East could trigger an increase in the number of refugees fleeing the clutches of death in countries without enough effective medical resources to shield people from this deadly virus, societies which are already plagued by crisis.

The world, especially Saudi Arabia, now has the perfect opportunity to bring an end to the decade of bloodshed that has ravaged Yemen, Libya, Syria, Iraq, and Afghanistan, even if some of these countries are still blinded by
partisanship and self-interest, making it harder for them to see that the real fight is a fight against a common invisible enemy, the ruthless enemy that threatens all humanity.

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