

## TOP OF THE NEWS

### Succession in Saudi Arabia Is Unlikely to Result in Major Changes in the Oil Policy of the Kingdom

King Abdullah's death and the arrival at the head of Saudi Arabia of his half-brother, **Salman bin Abdulaziz al-Saud**, who was the crown prince, should not in itself lead to major changes in the kingdom's oil policy, especially in the current strategy of the country to let crude prices slip down without trying to turn the tide thanks to a significant reduction in production (see page 28). But this statement must be specified and nuanced. There will be no major changes in the short term, which does not exclude subsequent revisions. In addition, possible changes would not be the direct result of the succession. They could have been decided even if King Abdullah was still alive.



Our belief that significant changes are very unlikely is based on the following main elements:

- The oil policy of the kingdom does not change overnight. As the current strategy is very recent it would be unrealistic to expect a rapid evolution.
- The Saudi policy in this area is determined by various factors, especially oil and economic considerations. Like any policy, it is likely to be revised if new information about the **market environment** emerges. In this case, it is too early for such elements to appear.
- After the succession, Mr. **Ali al-Naimi** was confirmed as Minister of Petroleum and Mineral Resources, which is a way to send a clear message to the international oil industry in terms of continuity. Mr. al-Naimi is the Oil Minister of Saudi Arabia since 1995. It was during that year that Abdullah had become the *de facto* leader of the kingdom because of the poor health of King Fahd (Abdullah formally succeeded him ten years later).
- The oil policy of Saudi Arabia is not decided by one man, whether king or minister. As for its main orientations, they must be approved by the **Supreme Petroleum Council**. Beyond the debates on the effective role of this body, it is certain that, given their crucial importance for the kingdom, such orientations are discussed and validated by a group of eminent personalities in the royal family before being formally endorsed and implemented. Previously the Defense Minister and the last leading Soudeiri within the royal family, Salman was part of the leaders who have had their say about the key directions of oil policy.
- As crown prince, Salman had on January 6 read a speech on behalf of King Abdullah in which the current oil strategy was justified.
- One of the new king's sons, Abdulaziz bin Salman, is one of the senior officials of the Ministry of Petroleum (Assistant Oil Minister).

These arguments in favor of short-term continuity do not mean that the Saudi oil policy is marked by immobilism. During 2015, four sets of factors should in our opinion be followed very closely for possible signs of change, which does not necessarily mean that it will occur in 2015.

◆ **The Saudi leaders believe that the fall of crude oil prices will lead to a rebalancing of the global oil market** due to higher demand and, above all, a decrease in the supply of high-cost petroleum, including unconventional crudes in the **United States** and **Canada**. The **Oil Ministry** of the kingdom and **Saudi Aramco** will thus closely watch in the coming months for signs that could indicate that their strategy is beginning to bear fruit (licensing, number of wells, capital expenditures budgets of oil companies, well closures, delayed or canceled development projects, etc.).

◆ Saudi Arabia insisted that it was not normal to always turn to the kingdom and, more generally, to **OPEC** while the 12 member states of this organization do not represent more than 40% of world oil production (including natural gas liquids produced by OPEC countries. If one takes into account crude oil only, the current ratio is about one-third). It will be important to see in 2015 if some **non-OPEC countries**, particularly Russia, Mexico, Norway, Oman and others, are willing to reduce their production in parallel with an OPEC effort and if OPEC believes that such intentions are credible.

◆ Rightly or wrongly, Saudi Arabia is criticized in various producing countries because of its alleged responsibilities in the fall of prices (as explained in this section, the kingdom has neither wanted nor caused the fall in prices, but its refusal, and that of OPEC, to cut production further aggravated this fall). It is very likely that in the coming months the **internal and external pressures on OPEC** will increase in anticipation of the next ministerial meeting of the organization in early June. Riyadh did stress its determination not to give in but that does not mean that the country will remain totally insensitive to rising pressures.

◆ Among the first signs in this direction, there are particular recent statements by the **Omani Minister of Oil**, who has strongly criticized the "*bad policy*" of OPEC. I do not understand how it can be considered that the defense of market share is more important than producers' revenues, explained in substance Mr. Mohammed bin Hamad bin Saif al-Rumhy, who stressed that the current situation was very difficult for the Sultanate of Oman. He added that OPEC only increased the instability of the market without lasting benefits for the fall in prices would not prevent high-cost producers to come back later. Coming from a minister of a "brother" Arab country and a member, as Saudi Arabia, of the **Gulf Cooperation Council**, such comments have not gone unnoticed in Riyadh.

◆ Saudi Arabia, **Kuwait**, the **UAE** and **Qatar** have the financial means to resist falling prices for several years if necessary but it is not, by far, the case of other Arab developing countries in the Middle East and North Africa. The kingdom hates above all the political and social instability in this part of the world and has been traumatized by the "**Arab Spring**". While current oil policy is primarily based on economic considerations, Saudi Arabia cannot ignore its political impact, particularly if the fall in oil revenues and austerity measures that will inevitably result from this situation contribute to the revival of a protest cycle in the Arab world.

Francis Perrin

## For the Pentagon, the Islamic State Is on the Defensive in Iraq

For the **Department of Defense of the United States**, the struggle led by the international coalition against the **Islamic state** (IS, Daesh) has begun to produce results. The number of IS fighters who have been killed since August 2014 is thus estimated at about 6,000 out of a total estimated at 20,000 to 30,000.

The progress made by the coalition against the IS in Iraq (this is not generally the case in Syria) include the following other items, according to the Pentagon:

- Many IS leaders and executives were killed;
- An area of about 700 square kilometers has been recuperated from the IS, particularly in the north. According to the spokesman of the Defense Department, Rear Admiral John Kirby, the terrorist group would control or dominate an area of 55,000 square kilometers, the Iraqi government 77,000 square kilometers and the **Kurdistan Regional Government (KRG)** 56,000 square kilometers. Mr. Kirby explained that all of these areas did not represent the total land area but only those that "*matter*" (large parts of Iraq are not inhabited due to their desert character). The loss of territory is indeed minimal, but the dynamics of progression of the IS was broken.
- The Islamic state has seen millions of dollars away from him because of the bombardment by the coalition of refineries and collection points for **crude oil** in Syria, said Mr. Kirby.
- Many materials, equipment, weapons and vehicles were destroyed and the IS is experiencing increasing difficulty to restock. The decrease in oil revenues is one of the causes of this situation.
- In the last days, the coalition also attacked **oil rigs** controlled by the IS. This was the case on 23 and 24 January near Hasakah in Syria under the *Inherent Resolve* operation. Flight operations in this country are conducted by the **United States** but also by **Saudi Arabia, Bahrain, the United Arab Emirates and Jordan**.
- It is becoming increasingly difficult to find targets for air attacks, the Pentagon said. This means that IS was partly adapting itself to this situation by dispersing his troops and by hiding them more. These new tactics certainly allow it to limit the damage but prevent it to concentrate its forces, and thus make it much more difficult to conquer new goals. The IS (the Pentagon still calls it ISIL - Islamic State of Iraq and the Levant) is on the defensive.
- Due to its human losses, the IS has difficulty in recruiting, as shown by the forced recruitment of young people, even children, practices that lead to growing discontent among Sunni populations living in areas controlled by Daesh.
- For the US Secretary of Defense, Mr. Chuck Hagel, the Kurdish **Peshmerga** and **Iraqi security forces** have sometimes managed to cut some of the supply lines of the IS. In addition, command and control networks of this organization were disrupted.
- Training of Iraqi fighters (Peshmerga and Iraqi military) started in four centers in Iraq.
- The **oil price fall** is obviously a very good news for the coalition since each barrel of crude oil or

refined products marketed by IS outside its areas of influence in Iraq and Syria brings it a lot less revenue.

That said, Pentagon officials are rightly very cautious. The IS remains a powerful force in the two countries and the war will last for years, maybe three to five years. Moreover, Mr. Hagel and the Chairman of the Joint Chiefs of Staff of the U.S military, General Martin Dempsey, do not miss an opportunity to point out that the fight against the IS does not involve military means only. They even explained several times that non-military aspects were most important, including improved governance in Syria and Iraq, relations between communities and ideological issues.

Between 8 August 2014 and 9 January 2015, the total cost to the Pentagon of operations against the IS totaled **\$1.3 billion**.

Francis Perrin

## Iraq Oil Production and Exports Increased in 2014

According to monthly figures published by the **Iraqi Oil Ministry** (see page 11), the country's **oil production** reached **3.113 million barrels per day** in 2014, against 2.979 million b/d in 2013, an increase of 4.5%. In December, production was **3.356 million b/d**, its highest level last year after the peak of February (3.41 million b/d). Crude production has been over 3 million b/d eleven months out of twelve in 2014, against only four months in 2013. This excellent result is remarkable since it occurs despite the war against the **Islamic state** which occupies a significant part of Iraq.

In December 2014, **Iraqi crude exports** surged to **91.2 million barrels**, against 74.5 Mb in November. Over the whole of last year, they totaled **919 million barrels**, an increase of 5.3% over 2013 (872.4 Mb). Here too, the increase is spectacular when one has in mind the fact that exports of **Kirkuk** were zero for six months of the year in 2014 and very low for another three months because of sabotages against the **Kirkuk-Ceyhan pipeline**. They have averaged **1.86 million barrels per month** only in 2014, against 8 Mb/month in 2013.

Despite this increase in the volume of exports, their value has decreased from \$89,212 million in 2013 to **\$84,130 million** in 2014. This is of course not surprising in view of the falling oil prices, which have been below the threshold of \$100 per barrel from August onwards and amounted to **\$56.59/b** in December. But it is very likely that Iraqi oil production and exports will continue to rise in 2015, which is not good news for producing countries.

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