

Saudi oil crisis worsens as OPEC grumbles and Iran enters the fray

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King Salman meeting John Kerry. Image: U.S State Department

All is not well in the House of Saud. With war still raging in Yemen, traditional rival Iran back in the International club, and vast military expenditure tightening the strings of the royal purse, one could forgive King Salman for just wanting to hear some good news.

But their self-imposed oil crisis is plunging them deeper into the mire. By flooding the market with crude at a time of notably low demand, the Saudis have deliberately driven the price of oil down in the hopes that their deep pockets will allow them to drive their competitors out of the game. Partly in response to a sudden influx of American shale, the resulting oil glut has seen prices drop around 70% to \$27 per barrel, shafting both the Saudi economy and their OPEC colleagues in the process. In other words – in a spectacular middle finger to common business sense – the Saudi strategy flies in the face of both supply *and* demand.

Cue the entrance of Saudi Arabia's regional, religious, and now perhaps economic arch-nemesis; the Shi'ite theocracy of Iran. With international sanctions finally lifting post-Iran Nuclear Deal, the Iranian oil industry is beginning to flex its muscles, immediately doubling production to a million barrels per day. If the Saudi plan was to thin down the market and retain the OPEC oligopoly, then it has now officially backfired.

However, it's possible that a temporary suspension of oil wealth is just what the doctor ordered. For many

years the Saudis have placed a premium on ‘economic diversification’, giving it pride of place in their first five year plan. Unfortunately, that was in 1970, and oil money still permeates every aspect of Saudi government. The goal has since been officially repeated eight times without any significant development.

This may be just the kick up the backside the Saudi treasury needed: Deputy Crown Prince Mohammed bin Salman has now promised to produce a ‘blueprint for sweeping economic change’ within the next month. With renewable energy sources beginning to loom on the horizon, this could be a necessary step for long-term benefit. In the meantime they’re running out of options; with spending cuts and higher taxes already announced, and OPEC partners close to revolt, their hand may nearly be forced.

The one thing you can always rely on Saudi Arabia for is hilariously hypocritical statements on foreign affairs. When presented with the prospect of a financially strong and internationally accepted Iran, Saudi foreign minister Abel al Jubeir issued the following statement: ‘Iran’s record has been one of war and destruction, terrorism, destabilisation, interference in the affairs of other countries and the concern in most countries in the world is that Iran not use these funds to fund destabilisation activities.’

If Saudi Arabia were a pot, and Iran were a kettle...well, you get the idea.



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