

Doha oil talks collapse

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Global oil prices initially fell sharply after the collapse of talks between major oil-producing countries in Doha on Sunday, sparking fears of a return to the market turbulence that characterised the first two months of the year. Prices then steadied yesterday on the basis that supply would fall because high-cost producers were starting to be forced out of the market.

The failure of the talks, which had been expected to result in an agreement among the world's major suppliers to hold production at last January's levels and stabilise the market, came after Saudi Arabia made an about-turn and insisted that Iran had to be part of the deal.

Before the talks began, the Iranians had signaled they would not take part in any restrictions until their production returned to the levels reached before the imposition of sanctions that were lifted in January. On the eve of the meeting, Iran's oil minister Bijan Zanhaneh said the reality of the country's return to the oil market should be accepted. "If Iran freezes its oil production ... it cannot benefit from the lifting of sanctions," he said.

According to the International Energy Agency, Iran's output was 400,000 barrels higher in March than it was at the start of the year. Iran has indicated that it wants to add a total of one million barrels of production this year.

Saudi oil minister Ali al Naimi appeared to have agreed that Iran would not be a part, at least initially, of any agreement. Delegates to the meeting said they had expected the Saudis to rubberstamp the deal. According to a report in the *Financial Times*, a "senior delegate" of the oil group, OPEC, said last month the Saudis would comply with a curb on production, even without Iran's involvement.

However, when the talks opened, a second draft of the agreement was circulated. Directed against Iran, it indicated a freeze would only take place "as long as all

OPEC members and major exporting nations" were unanimous on a deal.

This shift followed a major intervention by the 30-year-old Saudi crown prince, Mohammed bin Salman, the second in line to the throne and the country's defence minister. Bin Salman has been given wide powers by his father, the king. As well as being the youngest defence minister in the world, he has been placed in charge of the state oil monopoly. The *New York Times* reported in January that his "swift accumulation of power and influence" had "upended the usual power balance within the vast royal family."

In an interview with Bloomberg, bin Salman insisted Saudi Arabia would not hold back production unless all oil producers, including Iran, did the same. He warned that his country could increase production immediately "if we wanted to."

The crown prince's intervention is directly related to the ongoing rivalry between the Saudi regime and Iran. One of his first actions after being appointed defence minister in 2015 was to organise the Saudi military intervention in Yemen against the Iranian-supported Houthi rebels.

The chief area of contention is Syria, where Saudi Arabia is working for the ousting of the Assad regime, which is supported by Iran.

The political tensions and conflicts were reflected in the responses to the break-up of the talks. They had been organised on the basis of an agreement in mid-February between Saudi Arabia, Russia, Venezuela and Qatar that something be done to halt the slide in oil. At one point earlier this year, the price fell below \$30 per barrel, compared to the high of \$115 per barrel as recently as June 2014. In the wake of those discussions on an output freeze, the price of oil rose to over \$40 per barrel.

After the failed meeting, Russia's oil minister, Alexander Novak, said he was "surprised" some OPEC

members put forward new demands at the meeting. He added, in a thinly veiled criticism of Saudi Arabia, that Iran was not the cause of the collapse of the talks. Russia is allied with Iran in its support for the Assad regime in Syria.

Qatar's oil minister Mohammed bin Saleh al-Sada tried to smooth over the differences, telling a press conference that the group of nations assembled at the meeting "needs more time" to reach an agreement. The next scheduled gathering is the OPEC meeting on June 2. That meeting will involve Iran but not Russia, which is not a member. Some OPEC members said if Iran agreed to join the production freeze at that meeting then talks with non-OPEC producers could resume.

While the failure of the talks appears not to have caused too much immediate turbulence—oil prices rebounded after initially falling by as much as 7 percent—the underlying instability of the market, fuelled by both political and economic tensions, remains.

In comments issued on the eve of the talks, oil industry historian Daniel Yergin, now vice-chairman of the market consultant IHS, said the fundamental issue was money because the revenues of oil-exporting countries had collapsed.

"In 2014, OPEC revenues were about a trillion dollars. Last year, they were half a trillion dollars. This year they're on a course to be down another 20 percent," he said. "This creates inordinate pressure on governments. Very difficult choices have to be made. Budgets have to be cut, credit ratings go down. There is a risk of social turmoil and problems."

Besides the Saudi crown prince's concern to deal a blow against Iran, these pressures may well have been at work in his intervention. In an interview with Bloomberg earlier this month, bin Salman set out a plan for establishing a Public Investment Fund (PIF) that will eventually control some \$2 trillion. This would involve corporatising the state-owned oil giant Aramco and transferring its shares to the PIF, so that investments would become the source of Saudi revenue rather than oil sales.

The "restructuring" of the Saudi economy has already begun with a series of measures, taken at the end of last year, following the oil price plunge, to cut government spending and raise the price of fuel and electricity. Bin Salman told Bloomberg that the investment plan would be "very aggressive" and the PIF would be the world's

largest fund.



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