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US - Saudi Arabia Oil Prices Collusion: Calculations and Errors

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This is the time the markets should expect oil prices to go up but they go down. It proves that a tacit collusion is taking place between the leading oil exporters and the countries involved, for instance, the United States.

Some say the prices have been brought down on purpose. The West is hasty to fight off doubts and say that those who say so have «muddled brains being obsessed with collusion stories». But it is not the first time the United States colluded with others in order to reach its geopolitical goals. Washington says it has happened due to circumstances and blames the producers that have

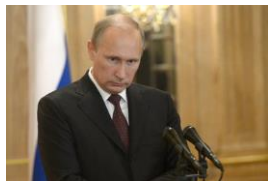
suffered as a result of prices going down. It is clear that the arguments hold no water, especially if one goes to the bottom of it.

Renowned *Foreign Policy* reports that the disbalance between offer and consumer demand is aggravated as a result of «*a surprising and unlikely rebound in Libyan output, and near-record production levels from Russia*». It implies that Russia is to blame while the attempts of the West to «punish» it have nothing to do with what is happening. Going into details helps to understand that the affirmation that «*near-record production levels from Russia*» is not substantiated. According to Russian Ministry of Energy, the output was 349, 190, 1 million tons of oil and gas condensate in the period of January-August 2014, exceeding by 0, 6% the production in the same period of the year before. The average daily output since the beginning of the year is 10, 490 million barrels (in comparison it was 10, 469 million in 2013). Obviously the additional 21 thousand (!) barrels or one trainload cannot make the difference. In January 2011 the daily production in Libya was 1, 574 million barrels. Now it does not exceed 900 thousand barrels.

The fall of prices has happened due to two main reasons. The first is the Saudi Arabia's announced decision to offer discounts so that it could maintain its market share at the time there is no visible excessive supply. The second - the surplus of oil on world markets that occurred as a result of US shale revolution. Last month Saudi Arabia brought down the price to the lowest 2008 level. In the United States the oil production has grown to 4 million barrels a day (three million falls on shale oil). The export has grown since 2006 from 1 million a day to 3, 5 million now. It's impossible to conceal that there is collusion between the United States and Saudi Arabia.

The history of tacit agreement between the United States and Saudi Arabia allegedly goes back to the President Obama's visit to Saudi Arabia in April 2014 when the US Middle East policy ended up in total failure and there was an urgent need for a way out. Some reporters hurried up to say that it was the most important foreign tour during the whole tenure of President Obama. The agenda included the US initiative to bring the oil prices down to «punish Iran and Russia» and simultaneously give an impulse to make the world economy go up. The pressure exerted on King Abdulla and the members of ruling dynasty was heavy enough. At the time the Islamic State hit radar screens to add to the factors making Saudi Arabia comply. The main target of the Islamic State led by al-Baghdadi who says he is a direct successor to the Prophet Muhammad is not Canada where a bold terrorist act has been recently committed. It's not even Baghdad or Damascus. These are only intermediate phases on the way to «liberate Mecca and Medina» from the Saudi dynasty that has usurped power. The jihadists say the dynasty has no relation to the Quraish tribe Prophet Muhammad belonged to. The Saudi family is really scared becoming more pliant to the pressure hoping the United States would not leave it alone facing the Islamic State threat. The same reasons are driving the foreign policy decisions of two other monarchies – Kuwait and the United Arab Emirates. The Western experts that make fun of the US-Saudi Arabia energy policy collusion theory said last spring that reaching the accord was the real reason President Obama wanted to visit Saudi Arabia for. Some advised the President to do it. For instance, Neil Barnett of the Centre for Policy Studies remembered the Afghanistan precedent of the mid-1980s and wrote that it was reasonable to make Saudi Arabia do all the dirty work. According to him, just a little dip in the oil price, perhaps down to about 90 dollars a

barrel, is enough to inflict great financial and economic damage on Russia. Saudi Arabia is the only oil producer able to do it. Barnett believed that Saudi Arabia would agree to punish President Putin for his support of the Assad regime in Syria. As he put it, «Has Washington floated this idea with Riyadh? It would be a surprise if it hasn't».



***Note:** Commenting on the fall of oil prices at the press Conference at Milan ASEM Summit President Putin said, «I think the price will even out and adjust. Moreover, I don't think any of the serious market participants are interested in maintaining it at a low level - \$80 or less, or just a little higher».*

Thomas Friedman of the New York Times writes, «...clearly we're trying to do to President Vladimir Putin of Russia and Iran's supreme leader, Ayatollah Ali Khamenei, exactly what the Americans and Saudis did to the last leaders of the Soviet Union: pump them to death — bankrupt them by bringing down the price of oil to levels below what both Moscow and Tehran need to finance their budgets». Friedman believes the confirmation of the fact that US – Saudi Arabia deliberate alliance exists is here at hand. There is ongoing unrest in four oil producers — Libya, Iraq, Nigeria and Syria. These countries are in turmoil today and Iran is hobbled by sanctions. Ten years ago, such news would have sent oil prices soaring. But today, the opposite is happening. The oil prices have been going down for a few weeks now.

The United States and the Middle East regimes that are applying efforts to destabilize the energy market in alliance with America, the way they did it in the 1980s, are running a great risk. They may jolly well miss the target and inflict heavy damage on themselves. First, the major part of forecasts and assessments offered by the experts of the Persian Gulf states predict that the exporters will be able to keep oil prices low without hurting themselves much for no more than 1-2 years. The same applies to the United States because the shale energy investments will curtail if low prices last longer.

Sanford C. Bernstein, the Wall Street research company, calls the rapid increase in production costs «the dark side of the golden age of shale». In a recent analysis, it estimates that non-OPEC marginal cost of production rose last year to \$104.5 a barrel, up more than 13 per cent from \$92.3 a barrel in 2011. Sanford C. Bernstein found an «unprecedented» spike in the US oil marginal cost last year, jumping to \$114 a barrel, up from \$89 in 2011. The adduced lower indexes - 65—70 dollars a barrel – apply only to some companies and the most efficient wells. The shale technology related ecological problems are becoming more acute in the United States. In the state of Ohio nearly 400 small earthquakes which ranged from magnitude 1.7 to 2.2, occurred between Oct. 1 and Dec. 13, 2013 and coincided with the drilling of wells with the use of fracking technology.



***Note:** Hydraulic fracturing (fracking) is a well-simulation technique in which rock is fractured by a hydraulically pressurized liquid. A high-pressure fluid (usually chemicals and sand suspended in water) is injected into a wellbore to create cracks in the deep-rock formations through which natural gas, petroleum and brine will flow more freely. When the hydraulic pressure is removed from the well, small grains of hydraulic fracturing proppants hold the fractures open once the deep rock achieves geologic equilibrium. The hydraulic fracturing technique is commonly applied to wells for shale gas. The fracking technology is not safe for environment, it causes the whole lot of ecological complications. Gasland, an American documentary written and directed by independent producer Josh Fox, tells about the problems related to hydraulic fracturing. The film was harshly criticized by Western oil and gas producing companies.*

Second, the majority of experts agree that the «safety cushion» in the form of Russian gold reserves, something the USSR did not have, is enough to let Russia endure and stand up to the price pressure for at least 2-3 years. According to the rules of Grand Chessboard, it means that Russia is able to be one step ahead.

***Note:** According to the Russia's Central Bank the Russia's gold reserves were \$443, 8 billion as of October 17, 2014*

The US achievements in to bringing down the oil prices may happen to be nothing else but Pyrrhic victory. Sooner or later Washington will have to apply efforts aimed at making the price go up in case it wants the shale revolution to continue and not nip it in the bud. The Middle East states that have supported the United States in their endeavor hoping it would aid them to repel the Islamic State attacks will soon realize how illusory their calculations were. By reducing part of their income they will spur the jihadist recruitment on their soil. The main beneficiary of political manipulations with oil will be China, the prime geopolitical competitor of the United States. It has already used the favourable business climate to become the largest economy in the world on purchasing power parity calculations. The US is still to assess the political significance

of the fact.