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Political Overview

On 7 May, Saudi Arabia announced a major cabinet reshuffle in which the veteran oil minister, Ali al Naimi was replaced by Khaled Al Falih, who now heads the re-named Ministry of Energy, Industry and Natural Resources, a portfolio that also includes electricity. Khaled Al Falih was the President and CEO of ARAMCO till he was named chairman of ARAMCO last year as also health minister before his new appointment. Industry has been detached from Commerce, with the latter now called Commerce and Investment, also under a new minister, Majed Al Qassabi. The old electricity and water ministry has been re-structured, with electricity going to energy, and water now part of the new Environment, Water and Agriculture Ministry.

The new Saudi oil minister has hastened to reassure the international community that his country will continue "to maintain its stable petroleum policies", clarifying that the Kingdom will seek to strengthen its "position as the world's most reliable supplier of energy."

These changes, which mainly encompass the energy and economic sectors, flow naturally from the "Vision-2030" document earlier this month [see West Asia Digest, 1 May, 2016] that includes wide-ranging changes in the country's economic setup to realize very ambitious targets to take the Kingdom to the post-oil era and make it one of the top 15 economies globally.

Peace talks have continued in regard to both Syria and Yemen, though there little progress is apparent in the public domain. Syria is seeing ongoing military action by government forces, backed by Russia, around Aleppo, while Yemen too has caused anguish to the coalition forces due to operations by the Houthis. In response to the latter, the coalition commander has threatened to launch an attack to take Sanaa if the Houthis do not end their military action. In Syria, no agreement has yet emerged on how to manage the transition, with the Saudi-led Higher Negotiation Council still insisting on Bashar al Assad's immediate removal.

Oil Price

Oil prices remained well above $ 45/barrel over the last fortnight, with forward Brent contracts to end-2017 reaching $ 48.5/barrel, the highest level since November last year. Even short term prices stood at $ 48.3/barrel in spite of a surge in OPEC production in April by 484,000 barrels to 33.4 million barrels per day [mbd]. The International Energy Agency (IEA) head, Fatih Birol, has suggested cautiously that prices may have bottomed, providing the global economy will now show an upswing.

IEA has projected an increase in global demand of 1.2 mbd this year, coupled with a decline of 700,000 b/d in non-OPEC production as also production declines in Nigeria and Kuwait. These developments have led Birol to forecast that there could be a demand-supply rebalance in the market either later this year or certainly next year. This, according to him, will see a surge in investments in 2017, following declines in 2015 and 2016, even reaching the earlier level of $ 600 billion.

Birol also believes that the recent increase in prices will not have an immediate impact on US production, since that would require prices between $ 60-65, which are still some way off. Bank of America Merrill Lynch have projected that oil will trade at $ 60 in 2017 as a result of a reduced global output since OPEC production will not any longer offset non-OPEC declines.

Iran's production continues its upward surge, reaching 3.7 mbd, with exports at 2.1 mbd in mid-April, just a little short of the pre-sanctions level of 2.2 mbd; it is expected to reach this level by end-June.

Regional Economic Scenario

THE REGIONAL MEDIA CONTINUES to comment on Saudi Arabia's ambitious "Vision-2030", applauding it for its ambition and expressing caution about the need to implement structural reforms if the vision is to be achieved. In a thoughtful comment, the veteran Saudi writer Abdul Rehman Al Rashed has noted that there are "several challenging long-term and short-term commitments" that need greater scrutiny. He places reform of the state bureaucracy as the priority task before the leadership. He also cautions that the Saudi private sector may not be ready to assume the great responsibilities placed upon it both to promote employment and manufacture, and believes that a revamped public sector could be more effective in the early stages of change.

On similar lines, GCC economists have warned that too fast a shift from governmental over-indulgence to extreme austerity could encourage an "economic death spiral" in which the private sector might just withdraw from the market, making it impossible for it to provide 65% of the GDP envisaged in the vision.

Author

Ambassador Talmiz Ahmad, Adviser, West Asia & North Africa, Ananta Centre
& Former Indian Ambassador to Saudi Arabia, Oman & UAE

(The views expressed are personal)