

OPEC IN TURBULENT TIMES

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OPEC is one of the most influential, publicly visible and controversial international organisation in the contemporary political economy. It successfully challenged the domination of Western oil companies over the oil market in the 1970s. However, since the collapse of the oil regime led by OPEC in the mid-1980s, it has had mixed fortune. Today OPEC faces multiple short- and long-term challenges.

The goal of this paper is to evaluate OPEC's reaction to these challenges, compare it with its response to the previous crisis in the oil market and to present the behaviour of different groups of countries within OPEC. It is argued that despite the poor cooperation between the member states, OPEC is still regarded by them as a valuable policy instrument.

At first, the article presents an overview of IPE literature on OPEC. Second, it evaluates OPEC's response to the previous oil market crisis. In the third part, it discusses the challenges faced by OPEC today, and in the fourth part, it analyses the way they are addressed by OPEC.

1. OPEC in International Political Economy

In the 21st century, energy issues have been enjoying a lot of interest among IR scholars. They became interested

in energy issues after two decades of relative neglect. In contrast to the 1970s, today the interest is not only concentrated on the oil crisis and the oil market; it is much broader and more diversified. Despite that, the study of energy issues is under-theorised. As early as in 1987, E. J. Wilson noticed that 'although no other single issue is so emblazoned on the public as a symbol of the age, no other issue has proven so resistant to conceptual rigor and theoretical development'. He pointed out that most studies were 'largely descriptive, a theoretical and noncumulative'¹. Almost thirty years later, J.S. Duffield made a similar remark, saying that most studies were 'a theoretical in nature'². There are four reasons for the under-theorisation of energy. First, many authors are interested rather in short-term prospects for the market or in how the governments, corporations or other actors would respond to certain market developments. Second, the field requires a certain level of technical knowledge, which is a barrier to entry. Third, energy is a multidimensional field, including not only political science and economics but also other areas. Finally, research on energy was drastically reduced in the 1980s and 1990s in comparison to the 1970s³.

This situation gave rise to loud voices in favour of reintegration of energy issues into the International Political Economy (IPE). IPE studies the relationship between politics and economics, which makes it suitable for studying energy⁴. A response to these voices has been offered by a group of the most prominent contemporary scholars working on energy issues, with the publication of 'The Palgrave Handbook of the International Political Economy of Energy'. They have divided their study into five sections and 28 chapters. These sections deal with: (1.) energy actors and institutions; (2.) energy finance, trade and investment; (3.) energy transitions; (4.) energy conflict and resource curse; (5.) energy justice and political ecology. The goal of this study was to find the 'who-gets-

what-when-and-how, of global energy'. The authors combine a study of OPEC and the resource curse, which are 'long-standing issues in the IPE of energy' with 'emerging issues such as fossil fuel subsidies and carbon markets'.

This long-term interest in OPEC is reflected in the broad range of literature analysing its behaviour and role in the oil market⁶. In 1970s, OPEC was seen as a 'rational wealth-maximizing monopolist or as a monolithic group'. The collapse of the oil prices in 1980s revised these views. New elements were integrated into the analysis 'such as the interaction between OPEC members, price wars, output sharing, the issues of cheating and coordination, the conditions under which OPEC members can collude, and the special role of Saudi Arabia within OPEC'. In the 21st century, the entry of financial investors provokes scholars to analyse the signaling role of OPEC⁷. As early as in the mid-1980s, it was noted that no model exhausts the functioning of the organisation. Individual models correctly describe the behaviour of OPEC at selected moments only. This view was formulated by James M. Griffin in 1985, but it still remains valid⁸. Under the current oil regime, OPEC has no power to dictate prices or the level of production. The idea of OPEC as a cartel is nothing more than a 'rational myth'. OPEC membership is rather a source of political prestige⁹.

Bassam Fattouh notes that in the 21st century OPEC sends signals to market participants about the expected price level. He suggests that (1.) 'OPEC's pricing power is not constant, but varies over time' and (2.) 'this change in pricing power is induced by market conditions and can occur both in weak and tight market conditions'. He adds that (3.) the market situation of OPEC becomes more complicated with the development of financial instruments related to the oil market and (4.) long-term investment plans could strengthen OPEC's role in the market¹⁰. Saudi Arabia (KSA) plays a key role in this mod-

el¹¹. The model is based on Robert Mabro's observation that OPEC members may be divided into two groups: core and non-core members. The core members have the ability to raise or cut production to achieve certain goals. They have high reserves and production, their production costs are low and budgetary needs moderate. Due to high oil reserves, they are interested in the long-term value of oil. This group includes the KSA, the UAE, Kuwait, and Qatar. In contrast, non-core members are rather interested in a short-term rise in oil prices to satisfy their high budgetary needs. The core members give the impression of being moderate oil exporters. Although they would prefer high/higher oil prices, they understand that they would harm their long-term interests¹². Despite these differences, all OPEC countries are dependent on oil price, so their oil policies have to match their budgetary needs¹³.

This literature overview shows that conflict is a permanent element of the oil market. This conflict is not only between exporters and importers of oil, but between exporters as well. Because of this, cooperation in this sector is poor¹⁴. In the 21st century, OPEC can only signalise its preferences to market participants.

2. OPEC in the 1980s and the 1990s

The late 1960s and early 1970s were the time of rising oil nationalism¹⁵. Most of the OPEC members were unhappy with the oil prices, with the division of profits from oil production between them and concession holders and with the ownership structure in the oil industry. Despite the failure of the oil embargos of 1956 and 1967, it was still believed that oil might be a useful political and economic tool (oil weapon) to change the political and economic balance of power in the world. Oil-exporting countries used oil as a political tool for the third time in 1973. This time the action was successful because the global mar-

ket was tight. There were no free production capacities (spare capacity)¹⁶. The successful rise in oil prices in 1973 was the first conflict that played out in line with geo-economic principles. It was non-ideological and its goal was to economically strengthen oil producers against oil consumers¹⁷. Some of OPEC members that were also part of OAPEC (the Organisation of Arab Petroleum Exporting Countries) followed political goals as well. The embargo resulted in a fourfold rise in prices and an 'enormous transfer of wealth' from oil importers to oil exporters. The decision to raise oil prices was based on the assumption that price elasticity of demand for oil is low. Oil exporters believed that consumers would pay any price, being dependent on OPEC's oil supply¹⁸.

Immediately after the surge of oil income, the OPEC members started the process of industrialisation. Despite some short-term success, diversification and modernisation of their economies have failed. Rentier states have emerged. Despite decades of investment in the local economies, they are still heavily dependent on the oil sector¹⁹.

The rise in oil prices proved to have negative long-term consequences for the OPEC members. The first one was a boom in the exploration and production of oil. There was a global hunt for oil. The new centres of oil production emerged in the North Sea region, in Alaska and Mexico. The Soviet Union was able to raise its production as well. The second consequence was the improvement of energy efficiency of the global economy. Energy saving became a priority for oil consumers. They were also determined to substitute oil. As early as in the late 1970s, it was clear that the market was oversupplied. However, the revolution in Iran and the Iraq–Iran conflict pushed the prices up to new record highs again, even though the KSA was determined to stabilise them. The oil production of the KSA reached over 10 million b/d in 1980. Shortly thereafter, however, Iraq and Iran were able to raise their pro-

duction again, global recession reduced the demand and non-OPEC oil production rose, fuelled by high prices. In response, OPEC reduced the price of oil and introduced a quota system to better control its members' production. The KSA took on the main burden of production cuts, becoming a swing producer²⁰. The KSA oil production was down to 3.6 million b/d in 1985²¹. In response to the falling market share and falling importance of oil to the global economy, the KSA changed its market strategy in 1985. It raised production and exports, which resulted in a collapse of oil prices. The KSA won this price war and other producers had to reduce their production and exports²². However, OPEC lost its control over the pricing of oil, which was taken over by the commodity market. In 1990, as Iraq invaded Kuwait, oil prices rose again, although moderately. The KSA was able to raise production to stabilise the prices. While the first oil crisis caused a fourfold rise in oil prices and the second oil crisis caused a threefold price increase, during the Kuwait crisis the prices only doubled²³.

During the 1990s, oil prices remained stable. The KSA did not behave like the swing producer and produced around 8 million b/d of oil. Only once in 1998 did oil prices go beyond the long-term trend, only to collapse later. There are two hypotheses that can account for this. According to the first one, it was a price war led by the KSA to discipline other oil producers, especially Venezuela, which at that time was realising an ambitious investment program²⁴. According to the second hypothesis, contrary to the first one, the highly indebted KSA did not have enough resources to wage the price war. It also understood that a long investment cycle in the oil industry made such a strategy impossible. The second hypothesis suggests that the increase in production was caused by wrong estimation of future demand²⁵. The message sent by the KSA government was clear: the KSA was not ready

to unilaterally cut production; the OPEC members and non-OPEC producers had to cooperate.

3. Challenges to OPEC in the 21st century

Although in the late 1990s OPEC was believed to have failed, it unexpectedly proved to be successful. In March 2000, in consequence of aggressive price cuts by OPEC after the 1998 price collapse, prices reached 30 USD per barrel. The cooperation with non-OPEC producers proved to be helpful. OPEC even introduced a price range of 22–28 USD per barrel to stabilise the market. It was again an influential market participant²⁶. However, as the price exceeded 28 USD per barrel, there was no production increase and the price continued to grow up to 147 USD per barrel in July 2008. The reaction of OPEC proved to be asymmetrical. OPEC was ready to cut production during the period of falling prices, but it was not ready to raise it when the prices increased²⁷.

This rise of oil prices was generally explained in two ways. The first explanation concentrated on market fundamentals, which included, among others: the rising demand in the emerging markets (for example: China, India), underinvestment in the oil industry, falling spare capacity, uncertainty regarding the sustainability of high prices, making companies and oil-exporting countries reluctant to invest in production capacity, and the fact that most oil reserves were controlled by states and national oil companies, which were unable to finance the necessary investments²⁸. Consequently, the peak oil concerns emerged²⁹. The second explanation saw a reason for rising oil prices in speculation³⁰. Although the role of speculation is unclear and controversially discussed, the rising role of financial investors in the oil market marked one of the biggest changes in the history of oil. As Daniel Yergin, the author of the best written history of oil argues: ‘That

frenetic daily trading has helped turn oil into something new – not only a physical commodity critical to the security and economic viability of nations but also a financial asset, part of that great instantaneous exchange of stocks, bonds, currencies, and everything else that makes up the world’s financial portfolio. Today, the daily trade in those “paper barrels” – crude oil futures – is more than 10 times the world’s daily consumption of physical barrels of oil. Add in the trades that take place on other exchanges or outside them entirely, and the ratio may be as much as 30 times greater. (...) the global oil market is anything but stable³¹.

The collapse of the prices in the late 2008 proved to be short-lived. OPEC producers were able to reach an agreement on production cuts³². Additionally, the Arab Spring and the general political instability in the Middle East pushed prices up³³. China and India were resilient to the global slowdown and remained the main source of rising demand³⁴. OPEC was once again at the height of its power with annual exports of petroleum products in 2012 worth USD 1193,858 billion³⁵.

4. OPEC and the collapse of oil prices in 2014

In contrast to the 1970s, most OPEC countries did not go on a spending spree in the 21st century. This is especially true of the core OPEC members. First, they paid back their debt. They also built up huge financial reserves, mostly in the form of sovereign wealth funds (SWF)³⁶.

However, the economic and political success of high oil prices led to new challenges for oil exporters. Also some unrelated political events made it difficult for OPEC to maintain the high level of oil prices in 2014. These challenges may be divided into two groups: the short- and long-term challenges.

There are four short-term challenges for OPEC’s dominance of the oil market. The first one is the consequence

of the investment boom in exploration and production (E&P) of oil over the last decade. As oil prices proved to be stable, oil companies increased their spending on E&P, making it rise between 2000 and 2008. After a short fall in 2009, they rose again in 2010–2014³⁷. Second, the oil market experienced de-conventionalisation. The term was coined by Leonardo Maugeri, who was the first to notice that unconventional oil may play an important role in the market. He mentioned Canadian tar sands, extra-heavy and heavy oils from Venezuela, ultra-deep offshore and pre-salt formations in Brazil as well as shale/tight oil from the United States. He suggested that the development of unconventional oil resources might provoke a market oversupply and fall of prices³⁸. Although the oil boom proved to be the reality only for Canada and the United States, it has had an impact on the global market. The debate about the potential energy independence of the United States or even its role as a new ‘Persian Gulf’ started. After overcoming initial pessimism, there were even suggestions that the United States could become an oil exporter or a swing producer³⁹. In the first stage, the United States was able to successfully reduce oil imports⁴⁰. It seems very difficult, however, to repeat a similar revolution outside the United States or Canada for multiple reasons: mineral rights regimes, geology, water supply, population density, deep capital markets, cutting-edge oil service companies, and infrastructure⁴¹. Third, Russia successfully modernised its oil industry in the 21st century, raised production and exports. Today, it is the second biggest oil exporter in the world, second only to the KSA. It is also successfully diversifying its exports from Europe towards fast growing Asian markets. The potential of further growth of production seems to be restricted by relatively small oil reserves in comparison to most Middle Eastern countries⁴². Fourth, Iraq and Iran are coming back to the oil market after a long period

of sanctions. Iraq was first, signing a series of service contracts with IOCs and foreign NOCs. Iran also negotiates possible cooperation with foreign companies. The outcome of these negotiations is uncertain at the moment, but the example of Iraq shows opportunities that exist in partnerships with the private sector and foreign NOCs. Still, the example of Iraq confirms that investment cycles in the oil industry are long. The Iranian oil industry is underinvested, which limits its potential to substantially raise production in the medium-term⁴³. In the low-price environment, Iraq also has to restrict its ambitious production plans⁴⁴. The rise of production in the United States, Russia, Iraq, and Iran presents a double challenge for OPEC. On the one hand, the biggest oil consumer has reduced its imports. On the other hand, OPEC and non-OPEC exporters have raised production, which has automatically led to bigger competition, thus weakening OPEC.

Much more dangerous for OPEC are the measures implemented by the importers that led to a long-term decrease in the importance of oil to the global economy. First, these are the measures leading to the rise of energy efficiency. This applies both to OECD members and the emerging economies, for example China⁴⁵. Second, renewable energy sources became an important source of energy owing to supportive government policies and sharp cost reductions⁴⁶. The main challenge for renewables to become the most important source of energy is energy storage and the use of renewables in transport. Transport currently consumes over 50 per cent of global oil consumption⁴⁷. That is why, e-mobility has recently moved into the centre of interest. For example, the German Bundesrat (the upper house of the parliament) has passed a resolution calling for a ban on combustion engine cars by 2030⁴⁸. Third, the Paris Agreement signed in December 2015 represents the biggest attempt to reduce the emis-

sion of greenhouse gases in the last decade. Its implementation may lead to a radical reduction in demand for fossil fuels. If it is successfully implemented, OPEC's future will be at risk⁴⁹.

In consequence, OPEC countries, and its core members in particular, have noticed that the future of oil as the most important energy resource is uncertain. Its value may be lower in the future. The reduction of economic importance of oil may change the political role of these countries. The core OPEC members became convinced that they have to prevent the fall of oil's role in the global economy⁵⁰. Interestingly, the Minister of Petroleum and Mineral Resources of the KSA Ali Al-Naimi joked in early 2016 that he had 'even survived peak oil' in his career in oil business⁵¹. The core OPEC members worry that consumers will substitute oil with other energy sources and raise the efficiency of their economies. OPEC could be left with huge but worthless oil reserves. In their view, the only way to prevent that fate was to reduce prices. That should help eliminate high-cost producers (offshore, shale/tight oil) and make oil more attractive again. As Daniel Yergin says: "There is a pivot away from asking "when are we going to run out of oil?" to "how long will we continue to use it?"⁵².

The key year for the core OPEC countries was 2014, when oil supply grew by 1.98 million b/d⁵³, when there was a risk that non-OPEC oil suppliers could eat into OPEC's market share. The US energy revolution presents a specific challenge for OPEC, because the nature of shale oil business is unknown⁵⁴. Because of an excess, oil prices started to fall in the summer of 2014. Unexpectedly for most observers, the OPEC summits of November 2014⁵⁵ and June 2015⁵⁶ did not change the OPEC supply level of 30 million b/d. However, this number was actually irrelevant because OPEC members produced freely, so the actual production was much higher. Poorer OPEC mem-

bers tried to convince the KSA that it should cut production, which the KSA opposed. As Ali al-Naimi disclosed in late 2016, in November 2014 there had been no common OPEC strategy. The decision to keep production unchanged was caused by the lack of will among most of the OPEC members to participate in the cuts⁵⁷. In December 2015, the divergence within OPEC became so big that the members were not able to agree on any production level⁵⁸. The main countries responsible for the rise of OPEC's production in 2016 were the KSA, Iraq and Iran.

The price fall was probably much deeper than expected. It changed into a real oil price crash⁵⁹. In January 2016, the price of oil fell below 30 USD per barrel. The financial situation of OPEC members, even the ones that were the strongest financially, started to deteriorate. Although they initiated economic reforms which have helped them slow down the use of financial reserves, the International Monetary Fund is pessimistic about their ability to balance their budgets in the near future. For 2016, only Kuwait was able to balance its budget with the price of oil below 50 USD per barrel. Even countries that are the strongest financially, like Qatar, the KSA, and the United Arab Emirates (Abu Dhabi), had to start issuing debt⁶⁰. The situation of the KSA is especially difficult. According to early 2016 forecasts of the World Bank, the Saudi financial reserves will be sold out within four years without major spending cuts and income rise. That is why, the KSA started to fall into debt. In late 2015, it borrowed USD 26 billion and in April 2016, USD 10 billion. In 2017, the KSA's public debt will probably rise up to 26 per cent of the country's GDP⁶¹.

In February 2016, a production freeze was agreed between Saudi Arabia and Russia, but only under the condition that other producers would also freeze their production⁶². The KSA seemed determined not to repeat the mistake of unilateral production cuts of 1980s. Diplomats

ic efforts of Qatar, Venezuela and Russia led to a summit of the largest oil producers in April 2016 in Doha, which, failed, however, to reach an agreement on production freeze or cuts. The reason for this was that Iran didn't participate in the negotiations. It just returned to the oil market after sanctions had been lifted and was determined to retain the pre-sanctions level of production⁶³. The decision to let the summit fail was taken by the new Deputy Crown Prince of the KSA Mohammed bin Salman. The KSA was not ready to exclude Iran from the agreement on future production. Shortly after the summit, the oil minister of the KSA, Ali Al-Naimi, was dismissed. Khalid Al-Falih became his successor. The negotiations took the next several months. No additional decision was taken during the OPEC conference in June 2016.

In the aftermath of the two years of passionate diplomatic activities and market instability, Ali Al-Naimi explained that the many years of oil prices exceeding 100 USD per barrel had changed the market conditions, encouraging high-cost producers to raise production and made the energy revolution in the United States possible. However, while the OPEC members and non-OPEC oil producers refused to cut production, expecting that the KSA would cut it, the KSA refused to do it based on the lesson learnt in the 1980s. It was not ready to give up its market share. Ali Al-Naimi argued that the market should determine the price. In November 2016, he also criticised the ongoing negotiations to curb production, saying: 'I have no idea why they want a reversal because a high price will definitely bring more crude to the market and Opec will further lose [market] share'⁶⁴.

Some ground-breaking decisions were taken during the OPEC conference in Algiers on 28 September 2016, where a reduction of OPEC's production to 32.5–33 million b/d was agreed. Additionally, the conference decided about the establishment of the High Level Committee.

Together with the OPEC Secretariat, it was supposed to study the market and make recommendations about production levels to the member states. It was also supposed to establish a framework for consultations with oil-exporting countries that are not OPEC members⁶⁵. The first Meeting of the High Level Committee with non-OPEC oil-producing countries took place on 29 October 2016. The non-OPEC participants were: Azerbaijan, Brazil, Kazakhstan, Mexico, Oman and the Russian Federation. The discussion concentrated on the possibility of managing production levels. Participants noted that the oil demand in 2016 was high and should continue to be so in 2017. In 2016, the non-OPEC production was down. The low price level provoked two years in a row of falling upstream investment. It was expected that this process might extend to the next year. Low investment levels provoked massive layoffs in the industry. Participants in the meeting considered that this development might be dangerous for medium- and long-term stability of the market, which is gradually rebalancing. Despite that, the participants were concerned about ‘excess stocks’ of oil. The participants ‘shared their readiness to enhance the rebalancing process’⁶⁶.

The period of low prices and competition for the market share should end with the OPEC agreement in November 2016. The OPEC members opened their agreement with the following statement: ‘Current market conditions are counterproductive and damaging to both producers and consumers, it is neither sustainable nor conducive in the medium- to long term. It threatens the economies of producing nations, hinders critical industry investments, jeopardises energy security to meet growing world energy demand, and challenges oil market stability as a whole’. OPEC members agreed ‘to commit themselves to the following actions:

1. In the course of implementing the Algiers Accord, 171st Ministerial Conference has decided to reduce its production by around 1.2 mb/d to bring its ceiling to 32.5 mb/d, effective 1st of January 2017;
2. The duration of this agreement is six months, extendable for another six months to take into account prevailing market conditions and prospects;
3. To recognise that this Agreement should be without prejudice to future agreements;
4. To establish a Ministerial Monitoring Committee composed of Algeria, Kuwait, Venezuela, and two participating non-OPEC countries, chaired by Kuwait and assisted by the OPEC Secretariat, to closely monitor the implementation of and compliance with this Agreement and report to the Conference;
5. This agreement has been reached following extensive consultations and understanding reached with key non-OPEC countries, including the Russian Federation, that they contribute by a reduction of 600 tb/d production.'

The weight of the biggest share of the cut was supposed to be carried by the KSA (486 tb/d), Iraq (210 tb/d), the UAE (139 tb/d) and Kuwait (131 tb/d). Iran was allowed to raise its production by 90 tb/d. Libya and Nigeria were excluded from the agreement⁶⁷.

On 10 December 2016, the ministers of the OPEC member countries met with their counterparts from non-OPEC oil producing countries. They reached an agreement: Azerbaijan, Bahrain, Brunei Darussalam, Equatorial Guinea, Kazakhstan, Malaysia, Mexico, Oman, Russia, Sudan, and South Sudan have committed 'to reduce their respective oil production, voluntarily or through managed decline, in accordance with an accelerated schedule. The combined reduction target was agreed at 558,000 barrels a day for the aforementioned producers'⁶⁸.

The discussions within OPEC as well as between OPEC and non-member oil exporters in 2016 focused on two areas: the reduction of stock overhang, which was seen as the reason for the low price level, elimination of high-cost producers from the market and the rise of OPEC's market share. It is important to underline that those representatives of OPEC and the core OPEC members have avoided any suggestions about plans to raise oil prices⁶⁹.

Conclusions

Despite many ups and downs in its history, OPEC is still a valuable policy instrument for its members. It is the key organisation of oil producers. OPEC enjoys a high level of prestige and interest among market participants, politicians and business circles. They direct their expectations towards it. Every comment of OPEC representatives or oil minister from one of the core OPEC members has an impact on market prices. In addition, OPEC uses this prestige to willingly signalise its expectations to market participants, which gives it the ability to move the market up and down. It also coordinates discussions with non-member oil exporters.

Nevertheless, OPEC is not a monolithic organisation. Differences among the members and the lack of any enforcement mechanism are significant restrictions to effective implementation of jointly made decisions. Its members have different short- and long-term economic interests. They also have different capabilities of influencing OPEC actions. Still, the existence of OPEC guarantees higher income to its members than if it did not exist at all. Internal diversification substantially restricts OPEC's effectiveness. The credibility of the signals sent to the market may be questioned. In the current market situation, as OPEC faces many short- and long-term challenges of partially unknown character, the credibility of the signals has to be strong.

OPEC has no instruments to manage the investments of its member states. The level of investment reflects the current price and the expectations regarding its future levels, the access of the OPEC members to funds and the current financial needs. Currently, the struggle to maintain the attractiveness of oil as a source of energy in the long term is an important factor for many OPEC members.

Most OPEC countries need a 'high' oil price level to balance their budgets. Kuwait is the only one among the OPEC members that currently has a balanced budget. This situation is a consequence of the OPEC members' failure to diversify their economies and make them independent from oil income.

Presently, the long-term perspective for oil as the main energy resource is unknown. In 2015, the strategy of OPEC's most important member – the KSA – was clear: a stable supply level and a desire to raise its market share of low-cost producers and eliminate high-cost competitors. However, the low prices proved to be disastrous for the Saudi economy. In 2016, the KSA actively participated in discussions about a possible production freeze, then in November, it agreed to production cuts, taking on the main burden. The strategy of the KSA and OPEC has made a U-turn. For the first time since 2008, OPEC has decided to cut production reclaiming the role of the market manager, which questions its credibility. The strategy promoted in 2014 and 2015 was successful: it effectively supported oil demand and some high-cost producers were eliminated from the market. The success of the new strategy is uncertain. If it is successful, the stock overhang will be reduced, prices will go up and OPEC's income will increase; but at the same time US supply will rise, efficiency measures will be intensified and renewables will be promoted. Ali Al-Naimi is right to say that any 'managed' rise in prices may be self-defeating for OPEC.

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