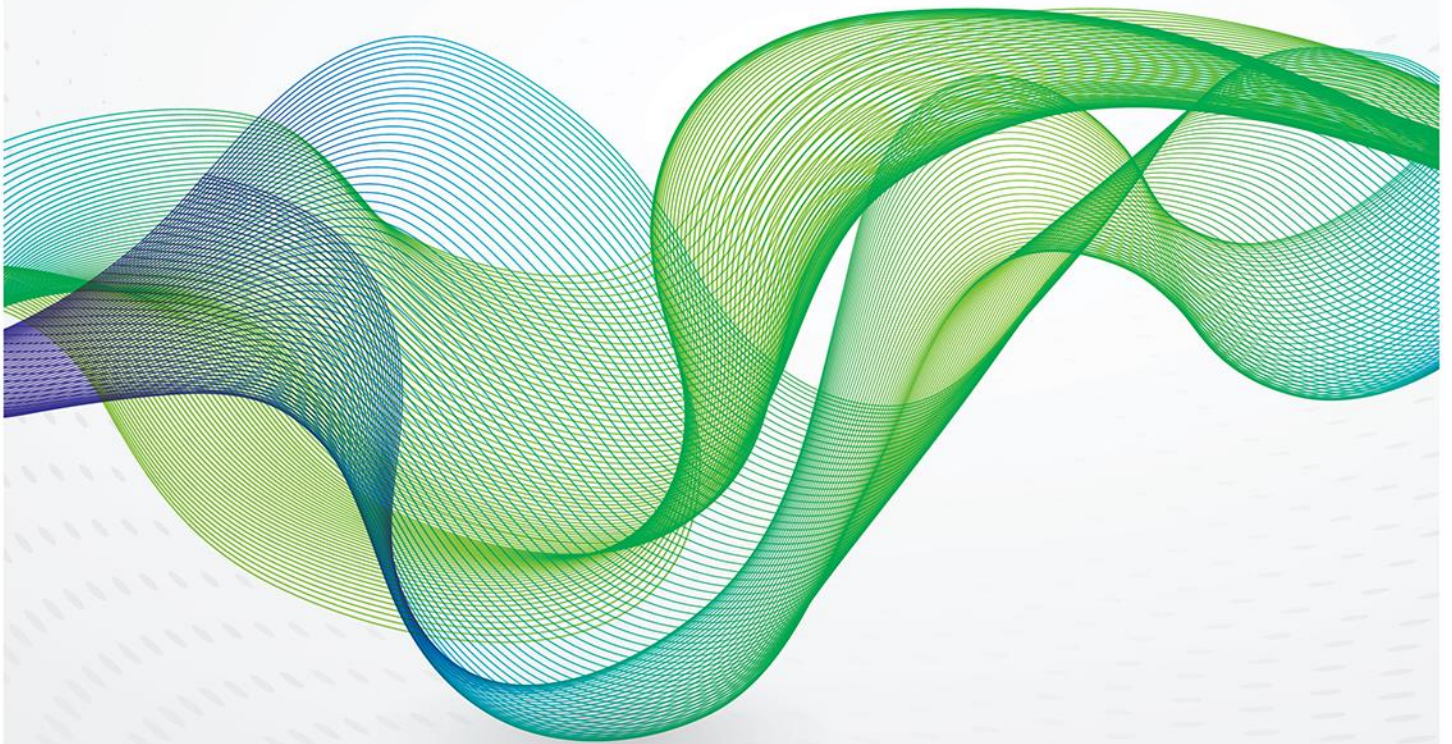


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The Image of GCC Oil Policy in the Western Media



OXFORD ENERGY COMMENT

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1. Introduction

Oil receives extensive coverage from western media. This should come as no surprise. Oil is a strategic commodity given that the transport and aviation sectors, the lifelines of the modern economy, are still almost totally reliant on refined products from crude oil. Sharp rises in the oil price can also impact the global economy, with some studies showing that oil price shocks have preceded most recessions in the western world. Oil is also a political commodity and has been center stage in key international affairs. Over the years, the oil market has been subject to a large number of geopolitical shocks that mainly originated from the Middle East: the 1973 Arab oil embargo, the 1979 Iranian revolution, the first and second Gulf wars, and the 2003 US invasion of Iraq, just to mention a few examples. Western media coverage of the Gulf in the 1970s, 1980s and 1990s was in large part conditioned by strategic security interests, where events from the region were mainly covered from the angle of security of oil supplies.

In recent years, the coverage of oil in the Western media has become broader in focus, reflecting the structural transformations in the oil industry and the evolution of energy policy. Nevertheless, some parts of the western media still tend to frame GCC oil policy within an outdated framework rooted in the events surrounding the 1973 Arab oil embargo. It is true that some of the biases against oil are structural in nature. Driven by climate change and energy security concerns, governments all over the world have been implementing policies and initiatives which aim among other things to secure oil supplies while at the same time reduce oil dependency through energy conservation measures, the promotion of renewable sources of energy and alternative fuels. However, other biases are driven by misconceptions and images that have been very difficult to shake off despite the drastic change in the structure of the oil market, its increasing complexity, and the diversity of players. For some observers, these biases could be attributed to a lack of deep understanding of the oil markets and the behavior of players. For others, the roots go deeper. For instance, Ibrahim Al-Muhanna argues that ‘without a shadow of doubt, there is a deep-rooted cultural hostility towards oil which has existed for decades and which has built up for reasons which have nothing to do with the raw material itself’.¹

This comment focuses on three misconceptions or misrepresentations based on the recent coverage of the oil market:

- 1) Misconceptions about OPEC’s and Saudi Arabia’s control of the oil market;
- 2) Misconceptions about the framework in which Saudi oil policy is being conducted;
- 3) Misconceptions about western countries’ dependency on ‘Arab’ oil.

It is important to stress from the start that the media coverage of oil markets is highly diverse and reporting skills and the degree of professionalism vary tremendously across media outlets and therefore the observations made here are in no way representative of all coverage by western media.

2. Control of the Oil Market

Although the GCC accounted for less than 25% of global oil production in 2013 with the USA currently producing more liquid fuels than Saudi Arabia, there is a persistent inclination to assume that OPEC and particularly its dominant player Saudi Arabia exerts full control over the oil market. For instance, R. James Woolsey argues in the Wall Street Journal that despite the recent increase

¹ Ibrahim Al-Muhanna (1993), ‘Oil And Coal: Why The Hostility Towards Oil?’ MEES, 22 Nov 1993 - Volume: 37 Issue: 08



in US production, the US can't drill its 'way out of the cartel's control of the global oil market'.² Nick Butler in the Financial Times articulates this perceived image of Saudi Arabia's pricing power quite nicely

*'We tend to have a mental image of Saudi Arabia drawn from the events of the 1970s and 80s. That image is of a fabulously wealthy country with a tiny population sitting on a sea of oil. The Kingdom is run by an old-fashioned but basically ethical monarch, staffed by brilliant technocrats who have managed to create a situation in which the country can set the world price for oil by adjusting output and exports at will. This power supposedly gives Saudi Arabia not just enormous revenue but also US protection in a dangerous world.'*³

Nick Butler argues that even if this image were a true reflection of Saudi Arabia in the past, it is no longer an accurate representation. According to the author, 'Saudi Arabia's games have led them to lose control of the market', posing 'risk for the whole industry, and for many countries dependent on oil revenues'.⁴ It is not clear what these games are, but they must have been ill conceived and costly if they caused Saudi Arabia to lose its power and according to the author, nowadays 'much of Saudi Arabia's power is psychological in nature — people have believed that because they have controlled prices in the past, they will do so for ever'.⁵

Amidst these extreme positions in which Saudi Arabia either has ultimate control or just psychological power, there is an agreement that Saudi Arabia's output policy has huge implications on the oil industry and oil market dynamics even when the kingdom decides to 'leave it to the market' to clear excess supplies. Commenting on Saudi Arabia's recent decision not to cut output unilaterally, Amrita Sen writes in the Financial Times

*Opec's decision to not intervene and Saudi Arabia's stubbornness (if one may call it that) has taught the market several lessons: that Opec and its biggest producer should not be taken for granted. That it may be willing to pursue longer-term objectives, even at the cost of near term revenue. The consequences are profound. No boardroom discussion at an oil company will ever be the same again.'*⁶

So it should come as no surprise that Saudi Arabia's oil minister Mr Ali Al-Naimi was named by the Financial Times as the energy personality for 2014 'for the fact that he has done nothing'⁷, which itself is a policy decision.

3. Geopolitics and Oil Policy

There is also an inclination by some of the western media to frame Saudi oil policy within a geopolitical framework. Under this approach, economic policy is not seen for what it is, but as geopolitically driven. Hence the recent decision not to cut output is seen as an attack on Iran, Russia, and the US shale industry – depending on the commentator. Some in the western media are not able to accept that current oil policies might be based on rational economic principles

² R. James Woolsey, 'How to End America's Addiction to Oil', The Wall Street Journal, 15 April 2010, <http://www.wsj.com/articles/SB10001424052702303411604575168130469848598>

³ Nick Butler, 'Has Saudi Arabia lost control of the oil market?', Financial Times, 16 October 2014, <http://blogs.ft.com/nick-butler/2014/10/16/has-saudi-arabia-lost-control-of-the-oil-market/>

⁴ Ibid.

⁵ Ibid.

⁶ Amrita Sen, 'Why Saudi Arabia is still in charge' Financial Times 30 December 2014, <http://www.ft.com/cms/s/0/2946a4f2-8f97-11e4-b5a4-00144feabdc0.html#axzz3S0j8qcYu>

⁷ Nick Butler, Energy Personality of the Year: Ali al-Naimi, Financial Times, December 15, 2014, <http://blogs.ft.com/nick-butler/2014/12/15/energy-personality-of-the-year-ali-al-naimi/>

aimed at serving the country's long-term economic and commercial interests and rooted in the economic realities of the country and the features of its oil sector such as the size of its reserve base and the availability of idle capacity.⁸ For instance, in an article published by the New York Times titled: A Pump War? Thomas Friedman poses the following question:

*Is it just my imagination or is there a global oil war underway pitting the United States and Saudi Arabia on one side against Russia and Iran on the other?*⁹

We don't need to wait long for the answer. Although the author admits that Saudi Arabia's decision may be driven by the desire to maintain market share

*the net result has been to make life difficult for Russia and Iran, at a time when Saudi Arabia and America are confronting both of them in a proxy war in Syria. This is business, but it also has the feel of war by other means: oil*¹⁰

In similar vein, Satyajit Das writes in the Independent

*For the Saudis, low oil prices are a means of exacting revenge...for Iran's support of the Shia factions in Iraq, its allegiance to the Syrian leader Bashar al-Assad and its destabilising nuclear programme. Low oil prices hurt Russia too, which also supports Syria and Iran. And they undermine the financial basis of Isis militants, whose sales of cheap smuggled oil funds their military activities. Low oil prices can also be seen through a Saudi prism as a reprisal against the US. They undermine American attempts at greater energy self-sufficiency through exploiting its shale gas and liquid resources. And they are a means of exacting revenge for America's strategic rebalancing away from the region to a greater Asian focus.*¹¹

He concludes the article by stating that

*The oil strategy is a signal from Saudi Arabia that it wields significant power and should not to be treated casually in geo-political terms.*¹²

Some of the coverage in the Financial Times reveals a similar line of thinking but this time highlighting the strategic relationship with the US, giving the impression that Saudi Arabia's oil policy is driven by US geopolitical strategic interests. Geoff Dyer and Ed Crooks argue that

by pushing oil prices lower, Saudi Arabia is helping to orchestrate some geopolitical outcomes that will be very welcome in Washington. The plunging price will create further problems for the Russian economy, which is already suffering under the weight of US and European sanctions in response to its intervention in Ukraine. Iran's economy will also be affected by lower oil prices...which could encourage Tehran to make concessions

⁸ See for instance, Fattouh, B. 'Oil Market Dynamics: Saudi Arabia Oil Policies and US Shale Supply Response', Presentation made at the Workshop Crude and Refined Products Markets: Transient Shock or Secular Change? The Hague, 18 March 2015. <http://www.oxfordenergy.org/wpcms/wp-content/uploads/2015/03/Oil-Market-Dynamics-Saudi-Arabia-Oil-Policies-and-US-Shale-Supply-Response-.pdf>

⁹ Thomas L. Friedman, 'A Pump War?' The New York Times, 14 October 2014. http://www.nytimes.com/2014/10/15/opinion/thomas-friedman-a-pump-war.html?_r=0

¹⁰ Ibid.

¹¹ Satyajit Das, 'For the Saudis, low oil prices are a means of exacting revenge', The Independent, 28 January 2015. <http://www.independent.co.uk/news/business/comment/satyajit-das-for-the-saudis-low-oil-prices-are-a-means-of-exacting-revenge-10007166.html>

¹² Ibid.

to the US.¹³

Saudi officials' constant denial that geopolitical considerations play no role in the kingdom's oil policy seems to fall on deaf ears.

If the current policy is not a war against particular countries, then it must be a war against some specific segments of the industry. Andrew Critchlow titles his article in the Telegraph 'Saudi Arabia increases oil output to crush US shale frackers'¹⁴ and the Economist produces a cover page of a pistol duel between a Saudi Shaikh and a Texan oil man. Others claim that OPEC and its dominant player Saudi Arabia are playing a 'game of chicken' with their oil.¹⁵

Deriving from this point, some parts of the media like to frame oil policy as an ongoing battle between the West (as well as the emerging East) and OPEC – a zero sum game where there is a defined winner and ergo, a loser. Hence, 'the war on shale' and the obituaries for OPEC, as though OPEC could never change its position despite the fact that past experience suggests otherwise.¹⁶ Part of this is also about headline writing: the need to get readers' attention in an increasingly competitive media market place. But there is also a degree of historical laziness and default romantic 'Great Game' approach to the subject of oil that has not evolved much since the industry emerged in the early 20th century.

4. Dependency on Arab Oil and Its Implications

Although the US imports crude oil from a wide variety of countries, most of the visual representation focuses on the 'Arab' Shaikh collecting the petrodollars. There is persistent inclination to make the assumption that US dependency on oil is a specific dependency on 'Arab' oil and hence the US addiction is not just to oil but to 'Arab' oil. It follows that any reduction in US oil dependency would automatically lead to a drastic shift in the US-Arab relations, eroding US's interest in the Middle East and its 'special' relations with the GCC. Writing in the Telegraph, Richard Spencer argues that the

US will soon overtake Saudi Arabia as the world's largest producer of crude oil, liberating its foreign policy from dependency on a handful of oil-rich Arab allies¹⁷

Such statements and images reflect a number of implicit assumptions. First, US relations with Arab nations, and particularly those with the GCC, are only driven by oil interests. Second, sourcing oil from Arab countries constrains US foreign policy options. The reality remains however, that even before the recent increase in production, US imports from the Arab world constitute a small share of its total imports and in theory as well as in practice the US can easily eliminate its *direct* import dependency on Arab oil. For Gulf producers such as UAE and Qatar, crude oil exports to the US are minimal and most of their exports are destined for Asia. For Saudi Arabia, crude oil exports to the US, part of which is used to supply its own refineries in the US, tend to fluctuate depending on market conditions and benchmark prices in different markets.

¹³ Geoff Dyer and Ed Crooks, Saudi Arabia tests US ties with oil price, Financial Times, October 16 2014. <http://www.ft.com/cms/s/2/e2fd08c6-554c-11e4-b750-00144feab7de.html#axzz3S0j8qcYu>

¹⁴ Andrew Critchlow, 'Saudi Arabia increases oil output to crush US shale frackers', January 27, 2015.

¹⁵ Matt Clinch, 'US shale and OPEC oil: Game of chicken?' CNBC, 18 November 2014

<http://www.cnbc.com/id/102194389>; Mohamad Bazzi, 'Saudi Arabia is playing chicken with its oil', Reuters, December 15 2014. <http://blogs.reuters.com/great-debate/2014/12/15/saudi-arabia-is-playing-chicken-with-its-oil/>

¹⁶ Fattouh, B. and L. Mahadeva (2013), OPEC: What Difference has it Made? Annual Review of Resource Economics Vol. 5: 427-443

¹⁷ Richard Spencer, 'Fracking boom frees the US from old oil alliances', The Telegraph, 13 December 2013. <http://www.telegraph.co.uk/news/earth/energy/oil/10476647/Fracking-boom-frees-the-US-from-old-oil-alliances.html?mobile=basic>

These trends show that shifts in GCC exports to the US are dictated by market conditions and commercial considerations. Whether the US imports crude from Arab countries is of little importance. After all, oil is a highly fungible commodity and oil that can't find a market in the US will find its way to other markets where it is needed.

5. The Complexity of Decision Making Process

Another key misconception concerns the decision making process which is often regarded as highly complex and highly secretive and that key decisions about oil policy often involve hard bargaining between the various wings in the ruling family. For instance, the Wall Street Journal reported that Saudi Arabia's latest move 'exposed cracks inside the Saudi ruling circle'.¹⁸ To provide support for such claims, the newspaper had to rely on 'people familiar with the matter'. They also had to rely on public statements made by individuals not linked in any way to the decision-making process. The vacuum created by the limited official information could also explain the attention that western media pays to personalities and speculation about who is becoming more or less influential in the decision making process.¹⁹ There is a strong belief that the decision making process is strongly tied to the personality and the preferences of the decision-maker and is not rooted in the underlying fundamental features of the country and its oil sector. As Robert Mabro argues

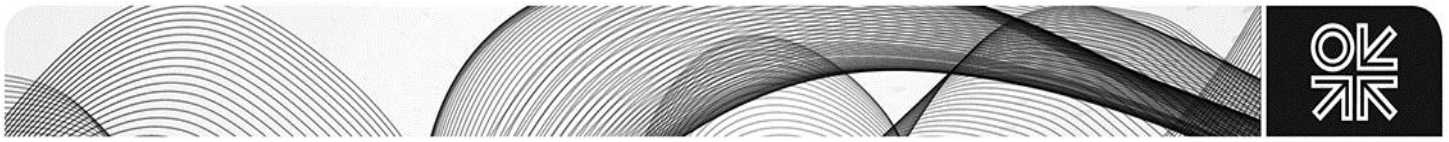
Most observers and analysts of government's oil policies have an undue fascination for the personality, temperament, behavior and other characteristics of the decision-makers. They tend to give more weight to these particular, therefore, contingent factors in explaining or evaluating policy than on the fundamental and, therefore, more permanent interests and structural features of the country. Not that personalities do not matter. The background, particular experience, abilities, ideological inclinations, and preferences of decision-makers influence both the design and implementation of policies. Nevertheless, the main determinants must be sought at a more fundamental level. Decision-makers come and go but the country (unless wars or other upheavals change the course of its history) remains. In any analysis greater weight must be given to the permanent than to the transient. Naturally, the media is after news, and anything that has to do with personalities may have news value.²⁰

This leads me to a key observation. In addition to the poor understanding of the process of decision-making and traditions of governance in the Arab world, part of this default approach by some of the western media also reflects the lack of transparency in GCC oil policy development, the partial glimpses of a very limited public debate about oil policy, the lack of reliable sources of information, and the limited availability of data, which are often inaccurate and outdated. The decision making process regarding oil policy remains a 'black box' even to the most seasoned observers. The vacuum of information and the antiquated way in which information is presented is in large part the reason why some of the western media fills in the gaps with conspiracy theory and other types of commentary that would simply not be deemed professional or justifiable if it were to be applied to economic decision-making in the west. Unfortunately, most of the energy ministries in the Arab world don't have an effective and professional communication and social

¹⁸ Jay Solomon and Summer Said, 'Behind OPEC Decision, A Saudi Fear of U.S. Shale' 22 December 2014. <http://www.wsj.com/articles/SB41807453627957774290504580343104052124036>

¹⁹ See for instance, Andrew Critchlow, 'Saudi Arabian oil minister weakened by elevation of king's son, The Telegraph, 1 February 2015. <http://www.telegraph.co.uk/finance/oilprices/11382653/Saudi-Arabian-oil-minister-weakened-by-elevation-of-kings-son.html>

²⁰ Robert Mabro (2001), 'Saudi Arabia Oil Policies', presentation at the conference on The Developing Role of Support Services for the Petroleum and Energy Industries in Saudi Arabia, held in Riyadh on 5-7 November 2001.



media strategies, backed by scientific and in depth market research and credible data, and most of the information released to the western media is either in the form of occasional interviews by ministers, public speeches, or leaked information from private meetings. In many instances, the information released is 'too little, too late' reflecting a lack of urgency and limited understanding that the quality of information, the timing of the release of the information, and the way the information is presented and delivered are all integral for an effective communication strategy to the media and the rest of the market.

6. Conclusion

Therefore, correcting some of the misconceptions and avoiding new ones developing is the shared responsibility of both western media and policy makers. This is a challenging task. In the western media, some of the roots of the problem are structural in nature and relate to factors such as the lack of background knowledge and expertise to cover sensitive oil market issues, the financial pressure to cut costs, the time pressure to produce stories to satisfy media users but also some biased views which have been difficult to shake off over the years. In the Arab world, the problem is also structural. The way of communicating policy and engaging with the western media has been shaped by old experiences and traditional approaches that are far too rigid to deal with the new challenges and complexities posed by the oil market. The switch to default arguments in the western media is in part a response to the absence of any illumination on policy-making in Arab countries. More transparency and a serious commitment to openness could go a long way to dispelling some of the myths and misconceptions about and GCC's role in the oil market.