MEES Interview With Ali Naimi: 'OPEC Will Never Plan To Cut'

Saudi Arabian Oil Minister Ali Naimi sat down with MEES on 21 December in Abu Dhabi and gave his fullest explanation yet of Saudi thinking in pushing for an OPEC rollover on 27 November. The following is the full text of the interview.

Will Saudi Arabia Not Cut Production If The Russians Do Not Cut?
First of all, why did we decide not to reduce production? I will tell you why. Is it reasonable for a highly efficient producer to reduce output, while the producer of poor efficiency continues to produce? That is crooked logic. If I reduce, what happens to my market share? The price will go up and the Russians, the Brazilians, US shale oil producers will take my share.

So This Is A Policy To Defend Market Share?
It is also a defense of high efficiency producing countries, not only of market share. We want to tell the world that high efficiency producing counties are the ones that deserve market share. That is the operative principle in all capitalist countries.

When You Met With The Russian Oil Minister In Vienna, It Has Been Said That He Told You That Russia Would Not Reduce Output And You Told Him That The Market Would Reduce His Output.
No, no. I did not have a dialogue with him at all. The Venezuelan oil minister asked me if I had a comment, so I said we wanted to hear from countries outside Opec. He asked the Mexican minister, who mentioned Mexico's problems, which we understand. He asked the Russian minister, who was also accompanied by the head of Rosneft Igor Sechin. He provided information about the Russian oil industry. In the end, he said he could not make any reductions because their wells are old, and if they reduce, the wells will not come back up. The minister confirmed that Russia was not willing to cut. We said "thank you" and the meeting was over.

Is It True That If The Price Falls, There Are Some Fields In Russia And Elsewhere That Cannot Produce?
The problem with old fields around the world is that they need continuous investment in new wells, and they cannot shut in old wells, because if they do, they will not come back up. So they are wary in that respect, particularly in West Siberia, where they have been producing for a long time and the wells there are declining. Their production of around 10mn b/d depends on high revenue, which is no longer there. That is the opposite of fields in the Gulf, which are still young. We have a lot of scope to continue, and our production costs are low – $4/B or $5/B at most. There is a difference between drilling a well in our areas and drilling a well in other areas. Also, Brazil's sub-salt wells, west African wells and Arctic wells are high cost. So sooner or later, however much they hold out, in the end, their financial affairs will limit their production. Will this be in six months, in one year, two years, three years? God knows. I say that the Gulf countries, and particularly the kingdom [Saudi Arabia], have the ability to hold out.

However Low The Price Drops?
If the price falls, it falls, you cannot do anything about it. But if it goes down, others will be harmed greatly before we feel any pain.

So Do You See Russian Oil Supply Going Down By 500,000 B/D As A Result Of The Low Oil Price And Sanctions?
I cannot say. That is an unknown, because I do not know all Russia's fields. The only area I know is West Siberian fields, but I do not know their other fields.

To What Level Would Oil Prices Have To Fall To Halt The Growth In US Shale Oil Production, And How Long Would Prices Have To Stay There?
Shale oil rocks are not homogenous. Some areas have higher porosity than others. Areas that have good porosity can produce at $20-30/B. But some places need $80-90/B to make it. What is certain now is that they have begun to remove rigs. You remove the rigs so you do not drill wells, so how are you going to produce? The other fact is that shale oil wells have 80% decline rates in the first year. That is why they have to keep the rig drilling.

If The Price Remains At Roughly $60/B The Call On Opec Crude Will Be 2mn B/D Less Than Current Output. If Opec Production Does Not Fall By 2mn B/D, Is There Some Point Within The

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Ali Naimi's Key Points

High efficiency producing countries are the ones that deserve market share. That is the operative principle in all capitalist countries.

If the price falls, it falls, you cannot do anything about it. But if it goes down, others will be harmed greatly before we feel any pain.

It is unfair of you to ask Opec to cut. We are the smallest producer. We produce less than 40% of global output. We are the most efficient producer.

It is not in the interest of Opec producers to cut their production, whatever the price is.

Opec was not established just to defend prices. Opec's charter is clear. It seeks stability of the oil market.

A deficit will occur. But we have no debt. We can go to the banks. They are full. We can go and borrow money, and keep our reserves. Or we can use some of our reserves.

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Coming Year At Which Opec Would Have To Take The Decision To Cut?
I want to make one thing clear. It is unfair of you to ask Opec to cut. We are the smallest producer. We produce less than 40% of global output. We are the most efficient producer. It is unbelievable after the analysis we carried out for us to cut.

Iraq Is Going To Add More Oil Onto The Market?
Why not? They are more efficient than many others.

You Do Not Think It Is Bad For The Market That They Are Putting More Oil On The Market?
No, no.

Although You Say That Low Oil Prices Are Not A Political Conspiracy, The Coincidence Is That Russia And Iran Are The Two Countries Suffering Most As A Result Of Low Prices.
Yes, but that is the result of their political actions. Iran and Russia are both under sanctions. It is true that they have been affected by the oil price, and they were in better shape when the price was $100/B. But that is not the problem. Their problem is more basic than that.

What Makes You Sure That The Oil Price Will Improve?
International oil companies have reduced their future capital expenditures, which means there is no exploration. Existing facilities will continue to produce. But the fact that they have reduced capital expenditures means that in the future, they will not have additional production.

Is That Not More Of A Bet Than Anything Else?
No, it is not a bet. They have declared in their budgets.

But Regarding Whether Prices Rise Or Not, That Is A Bet.
The bet is about the timing of the price rise, not about if it will occur.

So When Will It Occur?
The timing is difficult to know.

So Do You Know When The Market Will Rebalance?
No.

Have You Got An Idea About The Price Level At Which This Would Happen?
No

Will We See $100/B Oil Again?
We may not.

So What Is A Sustainable Price Of Oil For The Long Term?
That depends on the marginal cost, and that differs from field to field. Our marginal cost at most is $10/B. We do not have that, but if I were to estimate it in the future, say in 10 or 20 years' time, it could be $10/B. But the marginal cost in other places is much higher, and it keeps rising, because of inflation, materials and other things.

If You Think That Prices Of $100/B And Above Led To A Surge Of New Oil Coming Onto The Market, Do You Now Have A Completely Different Strategy To Avoid Prices Of $100/B And Above?
No, we wish prices would go back up. One has to be realistic. There are many things in the energy market – not the oil market – that will determine prices in the future. A lot of effort is being exerted worldwide, whether in research, or boosting efficiency, or using non-fossil fuels. All these might witness a breakthrough one day. Any strategy must be done in a way that allows it to be changed continuously. Now, we do not know where prices are going. Are they going to go up, are they going to go down. But one thing is for sure. Current prices do not support all producers.

Venezuela Needs A Higher Price Than You.
That is true, but that is not of any use. But all we will do if we allow prices rise as we did in 2008 in Oran [is to raise] the production of marginal barrels. This was less than 1mn b/d [in 2008], today it is around 4mn b/d.

You Said Earlier Today That Opec Would Never Cut Production. Can You Elaborate On That?
There is no such thing as never. Anything can happen. We could lose a field or many other things. But, as a policy for Opec – and I convinced Opec of this – even Mr al-Badri [Opec Secretary General] is now convinced, it is not in the interest of Opec producers to cut their production, whatever the price is.

That Is Now. But What About The Future?
It is the same.

Even If The Price Goes Down To $40/B Or $30/B?
Whether it goes down to $20/B, $40/B, $50/B, $60/B, it is irrelevant.

But People Are Saying That Opec Is Irrelevant If You Do Not Act?
Opec was not established just to defend prices. Opec's charter is clear. It seeks stability of the oil market. When prices rise or fall, we try our best to get everybody together [including from outside Opec]. We tried, but there was no way. It is obvious from my previous experience that others [from outside Opec] will not cut.

Did You Expect The Oil Price To Fall That Quickly And That Steeply?
No, we do not expect anything.

Were You Taken By Surprise By How Much It Fell?
No, we knew the price would go down because there are investors and speculators whose job it is to push it up or down to make money.

What Is The Difference Between The [1997] Jakarta Meeting [When Opec Boosted Output Just Before The Asian Financial Crisis], When There Was Panic, And Now? What Has Changed?
Do you know why there was a problem in 1997? The head of [Venezuelan state oil company] PDVSA was convinced he could produce as much as he liked, and he boosted production from just over 2mn b/d to 3.7mn b/d, while their minister kept telling us that they were sticking to their quota. In Jakarta, I told him he had two choices: either to reduce output, or that we in Opec would split the surplus. He said he would reduce output, but I expressed my disbelief. Then, we split the surplus. The Asian recession occurred, production was high, and the price fell. This is true.

In The Past, Lower Prices Did Not Impact North Sea Oil Production, And The Shale Gas Revolution Was Not Affected When Prices Went Down. You Do Not Think The Same Will Apply To Shale Oil?
It will apply, but there are many who will leave the market for sure.

What If The Price Stays Like This, Or Even Goes Lower For Two Or Three Years? Can The Core Middle East Gulf Producers Withstand Two Or Three Years Of These Prices?
Yes, I can assure you they can withstand them.

But You Have Announced That You Will Have A Budgetary Deficit
A deficit will occur. But what resources do you have in the country? We have no debt. We can go to the banks. They are full. We can go and borrow money, and keep our reserves. Or we can use some of our reserves.

What Oil Price Will The New Budget Assume?
I do not know. That is a matter for the finance ministry.

On The One Hand, Lower Oil Prices Will Stimulate The Global Economy By Reducing The Energy Price In Consumer Countries. But On The Other Hand, Is It Not A Concern That Lower Spending By Producers And The Possible Rise Of Deflation As A Result Of Lower Oil Prices Could Also Have A Negative Economic Impact On Consumers?
Deflation is negative for anybody, of course. That is why they are concerned about deflation in Europe.

So Is It Not A Concern That Lower Oil Prices Could Contribute To Deflation?
No, we do not have deflation.