

# Saudi All-Out Price War Against Russia Will Also Hurt Iran – And Help Israel

by Hugh Fitzgerald



**Saudi Arabia has now declared an all-out price war against Russia and other oil producers. The story is [here](#).**

*Saudi Arabia plans to boost oil output next month – April – to well above 10 million barrels a day, as the kingdom responds aggressively to the collapse of its OPEC+ alliance with Russia.*

*The world's largest oil exporter engaged in an all-out price war on March 7, by slashing pricing for its crude by the most in more than 30 years. The Saudi state's energy giant Saudi Aramco is offering unprecedented discounts in Asia, Europe and the U.S. to entice refiners to use Saudi crude.*

*At the same time, Saudi Arabia has privately told some market*

*participants it could raise production much higher if needed, even going to a record 12 million barrels a day, according to people familiar with the conversations, who asked not to be named to protect commercial relations. With demand ravaged by the coronavirus outbreak, opening the taps would throw the oil market into chaos...*

*The shock-and-awe Saudi strategy could be an attempt to impose maximum pain in the quickest possible way to Russia and other producers, in an effort to bring them back to the negotiating table, and then quickly reverse the production surge and start cutting output if a deal is achieved. In a sign that both sides remain in talks, the OPEC+ Joint Technical Committee, a body of senior oil officials who advise ministers, plans to meet on March 18 to review the global oil market, according to delegates. Saudi and Russian officials are part of the JTC.*

*“It’s certainly a high-risk, high-stakes approach,” Tim Fox, chief economist at Dubai-based lender Emirates NBD PJSC, said Sunday in a Bloomberg Television interview. “It didn’t come together on Friday and I think market confidence that it will at some point in the next couple of weeks is actually quite low.”*

*The production increase and deep discounts mark a dramatic escalation by Prince Abdulaziz bin Salman, the Saudi oil minister, after his Russian counterpart Alexander Novak rejected an ultimatum on Friday in Vienna at the OPEC+ meeting to join in a collective production cut. After the talks collapsed, Novak said countries were free to pump-at-will from the end of March.*

*With jet-fuel, gasoline and diesel consumption rapidly falling due to the economic impact of the coronavirus outbreak, the energy market now faces a simultaneous supply-and-demand shock.*

Saudi Arabia, reacting to the refusal of Russia to agree to collective production cuts in oil, has decided to engage in an all-out price war to bring Russia back to the negotiating table, where the Russians will have to yield to Saudi demands for such cuts. Right now the Saudis have already announced that Aramco will raise production from 9.7 mbd to 10-11 mbd, and made clear they can easily raise production higher still, to 12 mbd, depending on what is needed to force Russia to agree to participate with OPEC in a collective production cut.

At the same time, the coronavirus has wreaked havoc with oil demand. All over the world plane travel has been affected; tens of thousands of flights have been cancelled because so many events – international conferences, sports events, music festivals, business meetings – have been cancelled. Saudi Arabia has even banned both its own citizens and foreign nationals from making the hajj to Mecca. Many people have been told to work at home; schools have been closed. Many are also choosing on their own not to travel, by plane or car, unless absolutely necessary. This is taking place even in regions where the coronavirus cases have been minimal. This decreases the demand for gasoline, and hence for oil. In China alone, demand for oil has gone down by more than 3 million barrels a day. As the coronavirus spreads across the U.S., more companies will do what Microsoft and Amazon have done in Seattle, having staff work from home, which means less driving, and less demand for gasoline. As the coronavirus threat keeps increasing, and travel by car and plane continues to decrease, demand for oil will continue to sink.

For oil producers, the simultaneous lowering of demand, and the rise in Saudi production, is a perfect storm of bad news. The latest reports claim that the price of oil will decrease to \$20 per barrel in 2020. Among those who can least afford the financial degrading is Iran. American sanctions have caused Iranian oil exports to sink from 2.5 mbd, just before sanctions were re-imposed, to 300,000 barrels a day in early

2020. The all-out price war of the Saudis will deliver another blow to the Iranian economy. If the price of oil goes from \$45 today to \$20, Iran will lose \$5.5 billion more in annual revenues. That means that Iran will have to cut what remains of its already much-reduced subsidies to Hezbollah in Lebanon. Some Hezbollah members have been complaining that they haven't been paid in months; some have even quit the group in public displays of rage. The knowledge that the leader of Hezbollah, Hassan Nasrallah, has amassed a fortune of \$250 million dollars has not helped morale.

As one effect of the Saudi oil-price war, Hezbollah will likely have its payments from Tehran cut to the bone. The leaders in Tehran have heard the protestors in the streets shout "No to Palestine, Yes to Iran" – a complaint about Iran's financial support for Hezbollah – and are leery of continuing such aid, given that is so unpopular. That means more members of Hezbollah will leave, the flow of expensive rockets and missiles from Iran to Hezbollah's bases in Lebanon will have to stop, the building of Iranian bases in Syria will be curbed or ended (that expensive infrastructure has been systematically destroyed by the Israelis in any case) and Israel will turn out to be an unintended beneficiary of the Saudi price war with Russia. It's not just God who works in mysterious ways – it's also the price of Brent crude.

First published in