



Saudi Arabia crashed the oil market in hopes of crushing the shale revolution, Tyler Area Energy Summit speaker explains

Written by Roy Maynard

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The real story behind the precipitous drop in oil prices is simple, Dr. Ana Alhajji told a sold-out crowd at the fifth annual Tyler Area Energy Summit.

The shale revolution - which brought about Texas-led advances in hydraulic fracturing, or fracking - caught Saudi Arabia and other OPEC nations off guard. They panicked, and in a nearly suicidal effort to crush the new technology, they are cratering the world petroleum markets.

"The Saudis, after the first oil spike in 1973-74, accumulated massive wealth," Alhajji explained. "But the economy was very primitive. Much of the population still lived in tents, as nomads. Their economy could not absorb that money. So they went to the experts, who told them to build energy-intensive industries."

That's why Saudi Arabia built its refineries and developed the infrastructure to produce and export natural gas liquids (such as propane and butane). They soon dominated those markets - for a while.

But then came fracking, which was a complete shock to the Saudis, Alhajji said.

"For years after the start of the shale revolution, they didn't know anything about it," he said. "They literally thought it was a plot by the CIA and the Israelis."

But by 2013, the Saudis realized it was a major economic earthquake that would upend global power structures, initially by allowing the U.S. to become nearly energy-independent.

"And so on Thanksgiving Day 2014, they made the decision to crash the market," Alhajji said. "We are paying the price of that Saudi decision now, in many ways."

It started with increasing production substantially in early 2015. That saturated the market. But then Saudi Arabia took it a step further and started lowering prices.

Other OPEC nations (OPEC stands for "oil producing and exporting countries," and includes non-Middle Eastern nations such as Venezuela) have been forced to compete with Saudi Arabia on both production levels and price.

"Those countries are hurting in every sense," he said. "Venezuela and Nigeria are already in the danger zone. And in many of those countries, government employees have not been paid in months."

In an environment like this, he said, "no (economic) model works - no one can predict anything."

Alhajji's presentation was heavy on charts and graphs, but the information he presented to the East Texas audience was martial in theme. The U.S. is fully engaged in an economic war with Saudi Arabia, and the Saudis see their very survival at stake.

“When will oil prices start to recover? No one knows,” he said. “Even if (the Saudis) freeze production right now, even if they cut production substantially, the impact on the market won’t recover immediately. It will take time for the market to rebalance, because we have to wipe out all that surplus for the market to truly rebound.”

Alhajji was one of three speakers at the Energy Summit, which is a cooperative effort by the Tyler Area Chamber of Commerce, the Tyler Economic Development Council and the city of Tyler.

“During the downturn in the 1980s, we really set out and worked diligently to make sure we had a diversified economy,” Mayor Martin Heines said. “But the fact remains this industry is critical to this area. It’s critical to all of us to have a strong oil and gas industry.”

Austin-based environmental attorney Michael Nasi spoke about the impact of new EPA regulations on the East Texas power grid and former state senator and Texas Agriculture Commissioner Todd Staples, now president of the Texas Oil and Gas Association, spoke about the role of the petroleum industry in the Texas and U.S. economies and how technology has done more to reduce emissions than regulations have.

“The reality is, in the United States carbon emissions are at their lowest in 20 years,” he said. “That has happened because of a private enterprise approach, rather than a command and control approach from Washington.”