



FALLING OIL PRICES

- is it good news for all?

If readers were invited to pick out the most significant world news story over the past 18 months, what responses would we get? Civil war in Syria? The threat of Isis? The migrant crisis in Europe? Putin's increasingly loose canon? The resurgence of Iran? The Brexit question? Good arguments could certainly be made for all but, for this financial column, it would be the global impact of the collapsing oil price. The shock waves are being felt across the world and there is very little we can do about it.

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So, what's the story? First of all, some fascinating numbers. The oil price was volatile at the onset of the global financial crisis in 2008. A peek at the graph for that year shows wild swings in Brent crude, the high-quality grade of oil that is used as a benchmark for the global price, with a massive spike to around US\$140 a barrel. By June 2014, Brent was trading

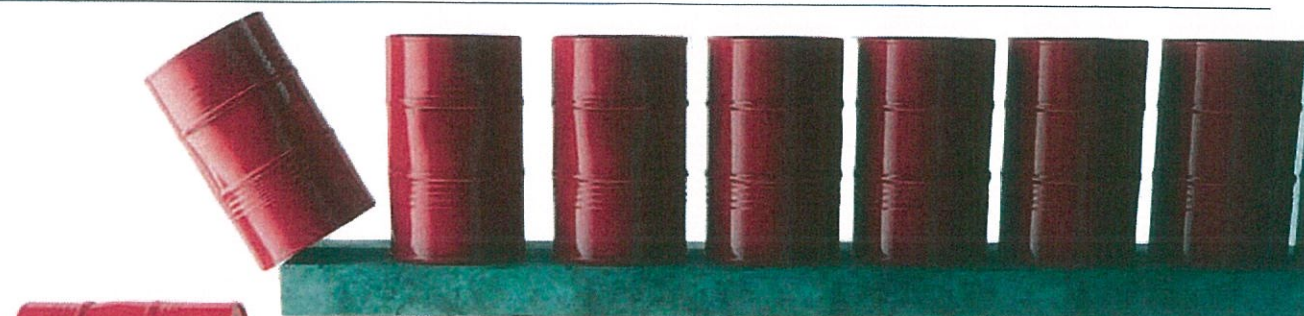
above US\$110 a barrel – high by historical standards, but not the wallet-busting level of 2008. Then, the downward correction kicked in. Prices tumbled, even dipping below US\$30 for a short period at the end last year. There was a modest recovery in early March but the price is still barely a third of that 2014 high water mark.

"Peak oil" concerns seem like something out of the distant past as today's discussion of the global oil market centres on the seemingly ever-growing supply of crude. Global oil inventories have hit record levels: in fact, the world has so much oil that it is actually becoming a logistical problem. Most onshore storage sites are full up at this point, so producers have taken to offloading their cargo onto tankers and anchoring the ships offshore.

"Peak oil" concerns seem like something out of the distant past...

So what has happened? It's too easy to blame a single factor or even a single oil producing country, for the collapse in the oil price. Saudi Arabia is usually cited as the main culprit and Ali bin Ibrahim Al-Naimi, the Saudi Minister of Petroleum and Mineral Resources, is undoubtedly the world's most powerful oilman but there is a confluence of causes. In years past OPEC, the petrostate cartel, cut its own production in order to buoy falling prices, but Saudi is now leading in a very different direction, choosing to pump more oil in an attempt to squeeze upstart non-OPEC producers for market share.

Readers of my generation will probably remember jokes about "Shake Ya' money", referring to his venerable predecessor Sheikh Yamani, who ran the show for 25 years from 1962 and played a central role in the 1973 oil embargo. The crippling price rises then were all about politics in the Middle East. Today's situation is more complex.



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One result of the downward pressure in oil prices is that several important exploration projects have been mothballed or cancelled outright. A recent survey by RBC Capital Markets suggested that projects totalling 500,000 barrels a day had been terminated in the OPEC countries alone. But even this has not been enough to halt the rout in prices.

So much for the reasons behind the drop. Who benefits from all this? Everyone, right? Well, no. But let's start by considering the winners. Motorists of course have

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noticed the significant drop. Indeed, forecourt prices in Gibraltar – already among the lowest in the EU – have fallen to levels not seen since I arrived on the Rock more than ten years ago. Consider how much you are "saving" today when filling up compared to a couple of years ago. Imagine multiplying that many times when fuelling an HGV – or a yacht, an aircraft or a ship; the impact is huge. Heating oil and natural gas prices have also fallen sharply.

Global oil inventories have hit record levels...

No one can deny that this is good news. No less an au-

thority than the Bank of England's Deputy Governor referred recently to the fall being a "net good" for the UK economy. Hidden in that rather terse phrasing lies a question. If it's only a "net good" the implication is that the price fall is also bad for some. Who then? Here are some suggestions.

Oil producing countries are no doubt the biggest losers. Saudi Arabia is now running a budget deficit but is, of course, so wealthy that it can afford to live with a low oil price for some time. But the South American providers – Venezuela, Ecuador and Brazil – together with Nigeria and Russia are suffering enormous economic pressures, which will lead to increased political turbulence. Indeed, a recent hike in domestic fuel prices sparked large protests in Venezuela. Let us not forget that the UK remains a substantial producer although it is no longer a net exporter.

The oil companies have also suffered. As production is scaled back, so staff are being laid off. A recent industry survey estimated that 250,000 people have lost their jobs so far and several smaller companies have gone bankrupt in the process. Think also of the effect on these compa-

On the demand side, the economies of Europe and developing countries are weak. This has put downward pressure on prices, but it is only a piece of the jigsaw. Vehicles are becoming more energy-efficient and other sources of sustainable energy are being exploited. The growth of wind power can be seen all too clearly in the Spanish hills around us in Gibraltar. Slightly further afield, in Morocco, the \$9 billion Ouarzazate Solar Power Station (OSPS) is underway. Phase one alone covers an area the size of 600 football pitches and uses half a million mirrors.

Renewables are certainly having an effect on demand for oil but it is the other side of the equation, supply, that is more important. US domestic production has nearly doubled with the advent of "fracking", pushing out oil imports that need to find another home. Saudi, Nigerian and Algerian oil that once was sold in the US is suddenly competing for Asian markets. Canadian and Iraqi oil production and exports are rising year after year. Even Russia, with all its economic problems, has managed to keep pumping, while the easing of sanctions against Iran will result in yet more supply.

Ali bin Ibrahim Al-Naimi, the Saudi Minister of Petroleum and Mineral Resources





Windmills on the Spanish hills

enjoy the lower prices while they last and, as spring returns, fill up my car and get out and about. You never know what's around the corner. To misquote those disclaimers we all read – the price of oil can go up, as well as down.

Oil prices in Gibraltar in early March 2016



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nies' share price. Many household names in the oil business are part of most pension fund portfolios. In a very real sense then, the general public have an important stake in the value of these companies – and will not welcome falls in share prices.

More tangentially perhaps is that lower costs will incite more use of private cars – to the consternation, no doubt, of the green lobby. The US has even reported an increase in traffic deaths as low oil prices have translated into more road travel.

So, when will oil prices recover, and to what level? None of the factors making up this complicated picture are likely to change any time soon but some stability does seem to be returning. On 16 February, OPEC members Saudi Arabia, Venezuela and

Qatar, along with Russia, announced a plan to freeze output at current levels. The industry seems to be in agreement that it is most unlikely we shall return to the heady levels of US\$100+ a barrel in the imminent future but there are signs that supply and demand – and price – could recover some balance by the end of 2016.

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Here, in Gibraltar, I think the Bank of England's "net good" message certainly holds true. For most of us, the fall in prices has to be positive. However, those involved in the bunkering and shipping sectors or those in the financial and legal sectors servicing clients in the oil business or with investments in the industry are likely to be suffering. At the risk of upsetting the green lobby, I'm going to

Ouarzazate Solar Power Station, Morocco



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