**Oil price : Saudi Arabia vs Shale oil**

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**Overview**

The paper reviews the situation of oil prices, examines the different factors, details the consequences and forecasts a possible situation at the end of 2017

**Methodology**

Analysis of articles, review of media, direct contacts with executives and managers of the industry

**Results**

The increase in the price following the OPEC agreements will be capped by the increase in shale oil production in the US

**Conclusions**

The price of oil will remain close the price at the beginning of 2017

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1. **The collapse of oil prices – 2014/2016**

The collapse of oil prices from $115 per barrel in June 2014 to less than 30 at the beginning of 2016 before a recovery at the end of 2016 has been largely discussed and the reasons are clear. Oil production increased in the US, each year, by one million barrels per day because of the development of shale oil (Light tight oil). The production of LTO was – about – 1 Mb/d in 2010, 2 in 2011, 3 in 2012, 4 in 2014 and 5 in 2015. The total increase of oil production in the US was a bit more important because of the development of the oil production in other regions (Gulf of Mexico for instance). Taking into account the increase in the production of oil sands in Canada, the development of the production of liquids (crude oil, natural gas liquids, some biofuels …) in North America should allow the continent (Canada, US, Mexico) to become self sufficient for oil. A huge change compared to 2005 when 2/3 of the oil consumed in the US was imported from abroad (Canada, Mexico, Venezuela and of course Middle East and West Africa)

In addition, the production in Saudi Arabia and Russia the two largest oil producers with the US remained healthy and was on the rise. All the same, the production of most countries in the Gulf, starting with Iran (after lifting of the sanctions), Iraq and even United Arab Emirates and Kuwait could increase. Prospects were also very positive for the production in Kazakhstan (Kashagan field), in Brazil and in a few African countries. The only big producing countries with a relatively bleak outlook were Nigeria and Libya.

Conversely, the increase in oil demand was slightly less than expected. In 2015 demand increased by 1,6 Mb/d and by about 1 Mb/d in 2016. Oil demand is now declining in Europe and stagnant in the US and the progression of consumption less rapid in China.

More production, slightly less demand than previously expected: the oil market, as most commodities market, is very sensitive to any variation in the production/consumption balance. Small variations in production and consumption can lead to huge variations in prices.

In the past, when such a situation occurred (oversupply or potential oversupply), OPEC decided to reduce its production – through the adjustment of quotas – to rebalance the market. In 2008 when the price of oil reached 147 dollars per barrel in July, there was a strong collapse and the price fell to less than 40 in December 2008. But very quickly OPEC decided to reduce production quotas by 10 % and the price rebounded to 80, then 100 in one year

The situation was and is quite different now. In a meeting, on November 27, 2014, OPEC decided to keep its production unchanged, clearly sending to the market the signal of a lasting oversupply

The main reason was probably the famous Saudi declaration « we want to keep our market share ». We do not want to reduce our extraction, since our production costs are a few dollars per barrel while production costs of LTO (shale oil in the US) are in the range of 40, 50 $/bl or more

Geopolitical issues played also a role (tensions between Saudi Arabia and Iran) as well as environmental issues

1. Price recovery : up to which price

Most OPEC countries, as well as Russia, are heavily dependent on their oil revenues to balance their budget. Oil (and gas) exports represent usually up to 90 % of total exports.

So the Algiers agreement in September followed by the agreement in Vienna between OPEC countries (November) and the agreement between some important non-OPEC countries to reduce their production made the price to recover

The increase will be probably limited by some redevelopment of the shale oil production