

## Arab Spring, Saudi Arabia, and Oil

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BP Statistical  
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## Political contagion effect now a major component to oil price premium

**Post-Egypt, oil market faces new concerns related to the nature of domestic societies, economies, political leadership and “legitimacy” in key oil producing countries**

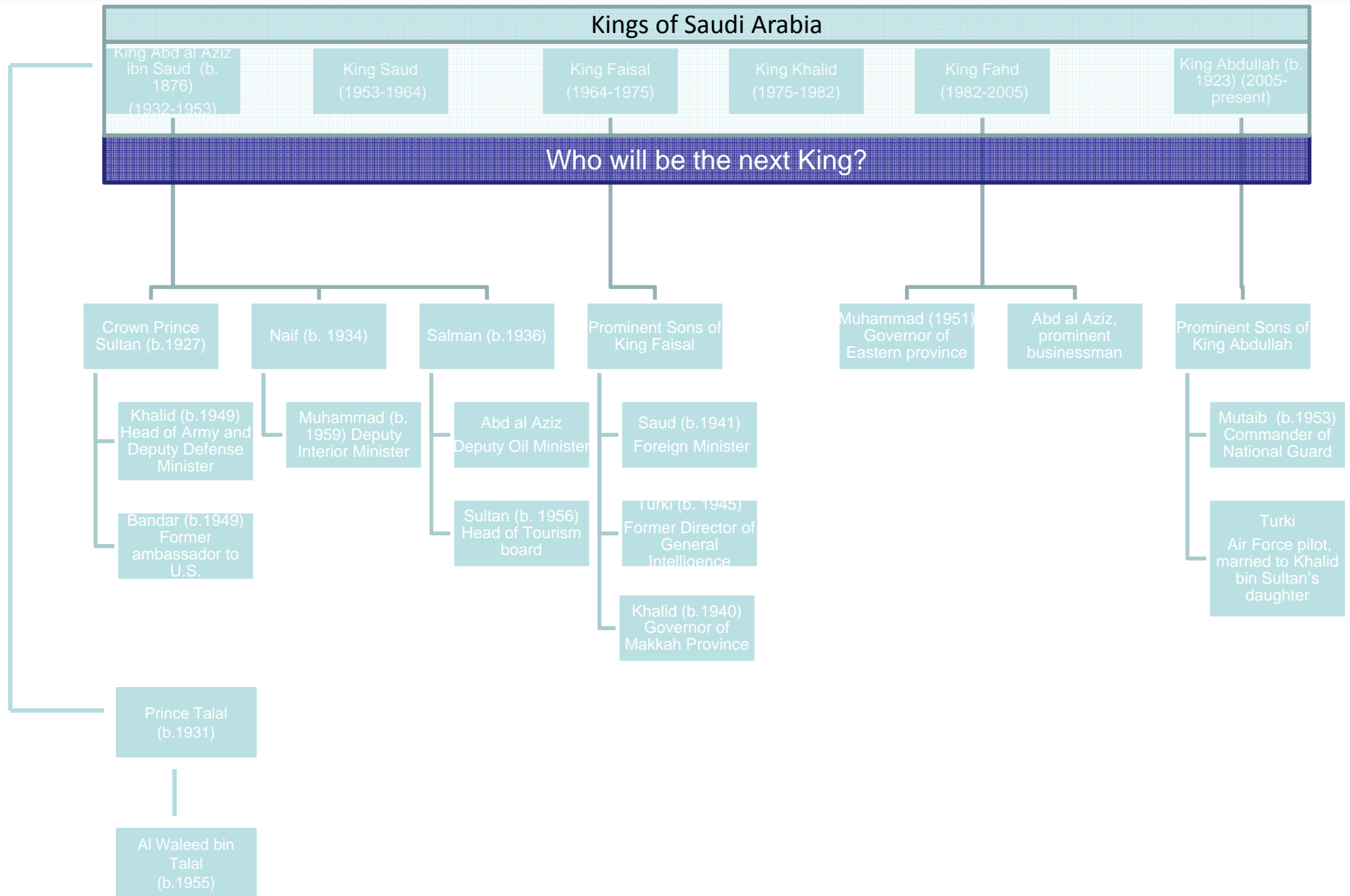
- Contagion:
  - Many oil producing countries have experienced similar kinds of demonstrations and social unrest both recently and in the recent past
  - Saudi Arabia’s leading rulers are old and in failing health

**Over 21 million b/d of Middle East liquids production could be at stake**

- -- Algeria: Median age 27.1 years, 10% unemployment, 2.1-m b/d
- Libya: Median age 24.2 years, 30% unemployment, 1.5-m b/d
- Syria: Median age 21.5 years, 8% unemployment, 0.4-m b/d
- Yemen: Median age 17.9 years, 35% unemployment, 0.4-m b/d
- KSA: Median age 24.9 years, 11% unemployment, 9.5-m b/d
- Iran: Median Age 26.3 years, 15% unemployment, 4.5-m b/d
- Iraq: Median Age 20.6 years, 15% unemployment, 2.8-m b/d

## **Contagion fears are not unfounded**

- Confrontation between Shi'ite pilgrims to Medina in Saudi Arabia's Eastern Province in 2009; coincided with Shi'ite disappointment that no Shi'ite was appointed to the King's cabinet or as representative in the council of senior religious scholars; small protests continue in 2011
- Kuwait Prime Minister Sheikh Nasser al-Mohammed al-Sabah, the Emir's nephew, faced impeachment hearings in late 2010 following the Kuwaiti government's use of force to break up a protest organized by academics and parliamentarians to protest alleged constitutional violations by the Kuwaiti government; Kuwaiti domestic politics continue to block major upstream investments
- Yemen, Syria experiencing continued instability
- Iranian government, remembering the role of the oil industry in the fall of the Shah, have put more members of the Iranian Revolutionary Guard Corps into the oil sector to prevent oil workers from staging the kind of workers strike that led to the overthrow of the Shah of Iran in 1978-1979



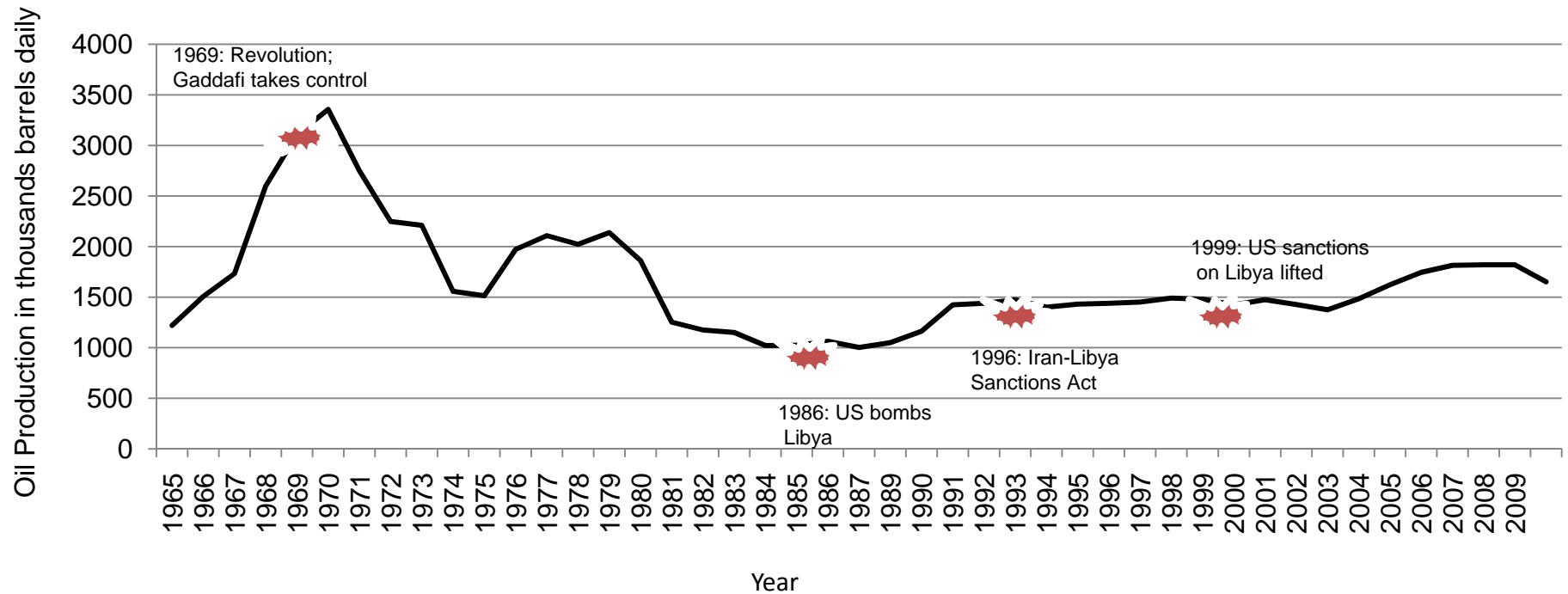
## **Changing Saudi Scene Iran Fears, Shi'a Unrest and Succession Competition**

- Saudi King Abdullah has warned of the threat from Iran's efforts to spread Shi'a Islam: "...We are aware of the extent of Shi'ite proselytism and where it has reached. But we do not think it will achieve its goal because the huge majority of Muslims who are Sunnis would not change their faith and sect..." He added "the dangers it (the Iranian government) could fall into will fall upon all of us."
- Washington Post Op Ed: "As the Saudis recalibrate the (US-Saudi) partnership, Riyadh intends to pursue a much more assertive foreign policy, at times conflicting with American interests. The backdrop of this change are the rise of Iranian meddling in the region and the counterproductive policies that the United States has pursued here since September 11." Characterized US invasion of Iraq as providing "Iran an opening to expand its sphere of influence."
- Prince Alwaleed Op Ed: "Initiatives just announced in my country, Saudi Arabia, by King Abdullah are a step in the right direction, but they are only the beginning of a longer journey to broader participation, especially by the younger generation."

## Regime Change Often Followed By Production Declines

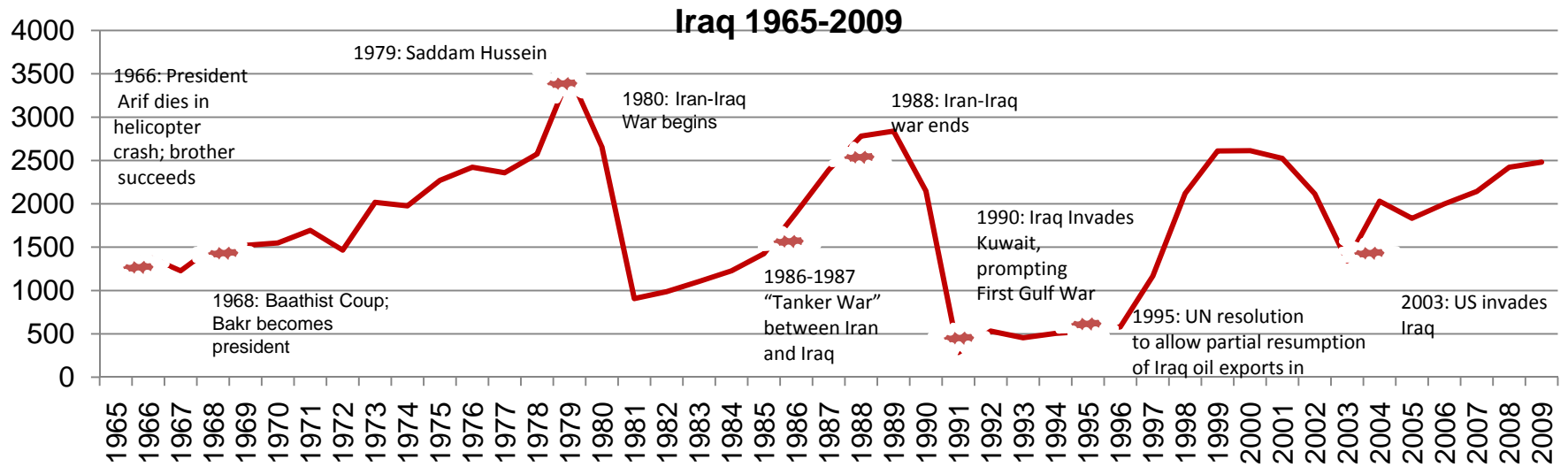
Sudden change of government results in worker unrest, brain drain, lack of a clear chain of command, and investment decision slowdowns, all of which can contribute to declining oil sector.

Libya 1965-2009



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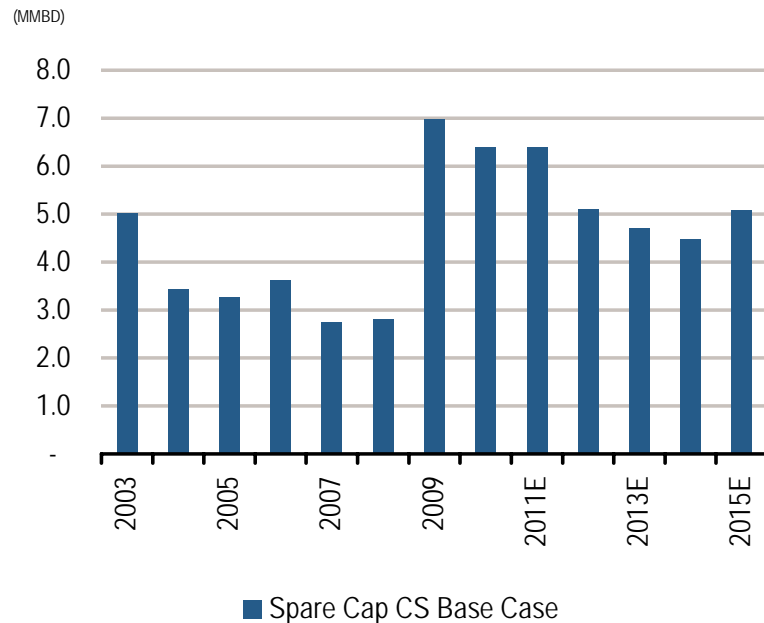
Oil Production in thousands barrels daily



Oil Production in thousands barrels daily



OPEC Spare Capacity could fall even more than expected in the coming years



- There are critical unknowns about OPEC that could impact future balances.
- Will Iraq grow to 3.6m or 7.2m b/d? Or not at all?
- Will Iran slide due to civil unrest? Saudi Arabia?
- Will Libya lose production potential? Algeria?
- What will the politics of upstream investment be in Kuwait?
- Will Venezuela be able to grow its capacity?
- Will Nigeria stagnate or reverse course?



OPEC production and spare capacity could be impacted by current turmoil

Country	2009 Target	Output Dec. '10	Current Capacity	Spare Capacity	Est. 2015 Capacity
Algeria	1,202	1,265	1,270	5	1,370
Angola	1,517	1,550	1,700	150	2,490
Ecuador	435	470	480	10	460
Iran	3,336	3,560	3,600	40	3,100
Kuwait	2,223	2,430	3,150	720	3,300
Libya	1,469	1,550	1,600	50	2,020
Nigeria	1,673	2,195	2,240	45	2,800
Qatar	731	810	950	140	1,050
S.Arabia	8,051	8,770	12,080	3,310	12,980
UAE	2,223	2,450	2,850	400	3,250
Venezuela	1,985	2,350	2,350	0	2,350
<b>OPEC 11</b>	<b>24,845</b>	<b>27,400</b>	<b>32,270</b>	<b>4,870</b>	<b>35,170</b>
Iraq		2,600	2,400		3,750
<b>OPEC 12</b>		<b>30,000</b>	<b>34,670</b>		<b>38,920</b>

Source: IEA, Credit Suisse Global Commodities Research

- Libya could stagnate at 1.0 to 1.4 million b/d, instead of rising to 2.02 mb/d
- Iranian capacity could fall further than expected
- Saudi Arabia, Iraq could reverse upward course
- Kuwait growth could fail to materialize