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Saudis lose patience on OPEC cheating, lash out at 'irresponsible' anti-fossil campaign

Saudi Arabia has warned of oil price spikes

By Ambrose Evans-Pritchard, in Houston
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Saudi Oil Minister Khalid al-Falih has lashed at Western leaders for promoting the 'myth' of peak oil demand and scare-mongering over vast stranded resources in the fossil fuel industry, accusing of them committing a grave disservice to mankind.

The defiant minister said the campaign of attacks on the high-carbon sector will deter trillions of dollars of vitally-needed investment, leading to a disastrous energy crunch once the current glut is cleared.

"They are doing nothing less than compromising the world's energy security. It will lead to damaging oil price spikes, and more acute poverty for developing countries," he said, speaking at the IHS CERAWeek summit in Houston.

Mr al-Falih said Saudi Arabia welcomes wind, solar, and other renewables but warned that they cannot quench Asia's "insatiable demand" for more oil or meet supply as global energy demand doubles by 2050.

For now the problem is the opposite one. The oil market is over-supplied and inventories remain near record levels, despite an accord last November by OPEC and a Russia-led group of states to cut output by 1.2m barrels a day (b/d).

Mr al-Falih admitted that the global crude market has not yet tightened enough and complained that some countries are cheating on cuts. "It has been slower quite frankly than I had thought in the first two months of this year," he said.

"Saudi Arabia will not allow itself to be used by others. The agreement is for the benefit of all, and needs to be addressed by all. We cannot accept free riders," he said.

The minister said his country would back cuts only for "a restricted period of time" and warned speculators with big long positions on crude oil derivatives that they should not expect the Kingdom to back-up their bets by choking supply.

"I would caution not to tempt investors into irrational exuberance, or into wishful thinking that OPEC or the Kingdom will underwrite the investments of others at our expense and long-term interests."

It is a strong hint that the Saudis may not agree to extend the deal when it expires in June. OPEC officials have been meeting oil traders at the CERAWeek forum to probe what is happening in the parallel futures market. They have been told that the funds may close their positions en masse and trigger a fresh price crash if OPEC returns to pumping at will.

Khalid al-Falih is the Saudi oil minister

Traders say Russia has cut barely half the 300,0000 b/d pledged, similar to the late 1990s when Moscow never followed through on promises. The country's oil minister

Alexander Novak told the forum that Russia would deliver by end of April, but also said dismissively that there are "more important issues to talk about" than the OPEC deal. He digressed instead into the issue of currency wars.

Mr al-Falih, an alumni of Texas A&M University and a popular figure in Texas, said the great exception to the investment drought is what is happening in the US shale industry. "The green shoots are definitely here in the US. It may be growing too fast," he said.

The problem is that US shale is "short-cycle". It is coming back so fast - probably by 500,000 b/d a year - that it is delaying the rebalancing of the global market as a whole, and may push the long-awaited recovery in oil prices out to 2018.

In a sense it is holding back long-term investment in the 'base load' barrels that the world will need in the 2020s, without itself offering the ultimate scale needed to plug the future supply gap. "I would like to see a shift from short-cycle to long cycle," he said.

The broadside on stranded assets is a veiled attack on Mark Carney, Governor the Bank of England, who has led the charge by G20 regulators and the Basel institutions for tighter controls on the way fossil fuel reserves are treated on balance sheets.

The Paris climate agreement implies that most of these reserves can never be burned in a 'two degree world'. There are growing concerns that energy companies are taking on leverage against a false asset, posing a long term-risk to financial stability.

What is clear is that the 40pc collapse of oil and gas investment over the last three years - now entering a third year of drought - is a serious risk to future supply. The International Energy Agency says the world's needs to invest $600bn in oil and gas alone each year just to replace declining fields. Last year investment was $380bn and this year it expected to be $410bn.

Fatih Birol, the IEA's chief executive, said a fresh crunch is looming by the end of the decade. "This is no time for complacency. We don't see a peak in oil demand any time soon. There is a significant risk of prices rising sharply starting 2020, unless new projects are sanctioned soon," he said in Houston.