

Global Journalist: How oil production affects the world economy

Abstract: In this May 8, 2003 episode of Global Journalist, host Byron Scott and four journalists from Venezuela, Saudi Arabia, Nigeria and Russia discuss about how the oil market in OPEC member countries and allies impacts the world economy, and what is the future of oil and OPEC from these countries' perspectives.

Host: Byron Scott

Guests:

- [Christopher Kenneth](#)
- [Phil Gunson](#)
- Greg Ombombio Schutze (ph?)
- [John R. Bradley](#)

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Mentioned: Oil, OPEC, Economy, Iraq, Venezuela, Russia, Saudi Arabia, Nigeria, United States, Politics, Oil Price, Oil Industry, Iraq War, Gulf War, Revenue

Runtime: 28:30

Byron Scott 0:12

Good evening and welcome to Global Journalist. This is Byron Scott from the Missouri School of Journalism sitting in for Stuart Loory. This is the program, as you know, which insists that Americans are interested in international news. Tonight we're going to discuss a topic that is central interest not only to the world but to us Americans coming up here on our summer vacations, and that is OPEC, the economic or exporting community of oil producing nations, and we have with us tonight for journalists to comment on the dealings and the movements of oil around the world. First, Christopher Kenneth, chief business reporter from the Russian Journal in Moscow. Mr. Kenneth, welcome.

Christopher Kenneth 0:50

We are welcome. Thanks to be talking to you. (sic)

Byron Scott 0:53

Thank you. Next from Caracas, Venezuela, we have the Newsweek freelancer Phil Gunson. Phil, welcome back to the program.

Phil Gunson 1:01

Thanks for your invitation.

Byron Scott 1:02

Then we have Greg Obombio Schutze (ph?), editor of The Daily Independent in Lagos, Nigeria. Welcome, Greg.

Greg Ombombio Schutze (ph?) 1:08

Thank you very much.

Byron Scott 1:10

And finally, John R. Bradley, managing editor of Arab News, who also writes for Reuters, The Daily Telegraph in London, The Washington Times on Saudi Arabia, and he's speaking to us from Jeddah, Saudi Arabia. First, I'd like to ask just how powerful is OPEC? It's something that we look upon as like the World Bank or perhaps the — some other vague, faraway kind of force here in the United States. But what really is a major force in the world. John, help us answer that question. How powerful is OPEC?

John R. Bradley 1:45

Well, it can be illustrated by the fact that here in Saudi Arabia, the Oil Minister Al-Naimi was rumored to be losing his job in the cabinet reshuffle that took place here about a week ago. Every single time there was even a brief mention his name, maybe every single time, there would be three comments by him. It was reported very, very extensively and oil play oil crisis was said to very, very slightly fluctuate as a result. That's a sort of power and influence. Just one oil minister, the most important from Saudi Arabia has when he's quoted in an OPEC context.

Byron Scott 2:35

Christopher Kenneth in Russia, we hear reports that even the welfare of the Putin administration has to do with the price of oil. Can you tell us what the Russian stake is?

Christopher Kenneth 2:50

Yes. Actually, the beginning of the current administration, the price of oil have been very high. And therefore, the government has been able to achieve most of the policies set out during the election in 1999. But most people claim also the, the high prices for lack of reforms in other sectors of the economy. So, at the current stage, people believe that the Russian economy, we will lose if the oil price goes down, or something like that. So the stakes here are very, very high, and everybody is watching on how the current issues from Iraq we affect the oil price in the future.

Byron Scott 3:46

Well, speaking of the interrelationship of politics and oil, what about Venezuela? So Gunson you've just been through an election and also some strikes where there's the price of oil has been very much an issue.

Phil Gunson 4:02

Well, yeah, actually, we haven't had an election — not a proper election — since the year 2000. But the oil industry is very much at the heart of the political conflict that's going on here. Major political crisis, but then as well as going through and as you say,

led to a strike combined strike as a stoppage, which very, very severely affected the oil industry in December and January, effectively shut it down and prevented what's normally the world's generally ranked around about the number five in the world as an oil exporter prevented that as well as escaping altogether. So that clearly affected the country very severely. There are varying estimates even from the government, but probably cost about \$4 to \$6 billion just in the in terms of the oil industry itself. And now, recovery is underway, but certainly that's when you take into account that oil normally accounts for something like 78 percent of foreign earnings at about half of government revenue. You can see that it's a really major issue.

Byron Scott 5:06

I recall speaking a couple of months ago to one of your colleagues there in Caracas who was talking to us from a cell phone and a 2-mile-long gas station lineup. Do you still have those lineups at the pumps still?

Phil Gunson 5:22

Well, they went away, but curiously enough, they came back yesterday. And the problem doesn't seem to be so much in terms of refining a gasoline as in terms of the lack of spare parts for the trucks that bring the gasoline and that's due to the attempt to impose exchange controls, which has dried up the source of dollars, and therefore prevented the country from importing such vital items as the tires and spares for the motors of the trucks. Yesterday, we did have returned to the gasoline.

Byron Scott 5:57

Greg Obombio Schutze (ph?), tell us about what's happening in Lagos. There have actually been some, some civil unrest, some even some abductions involving the oil industry.

Greg Ombombio Schutze (ph?) 6:12

Right now, there isn't any civil unrest in Lagos as such, but, you know, down there in the Niger Delta, it's been quite erratic for years.

Byron Scott 6:21

Yes. That's what I was referring to.

Greg Ombombio Schutze (ph?) 6:25

I mean, the whole thing is they're being highly politicized because, you know, since Ken Saro-Wiwa was murdered by the government, everybody else said that look, we need to, you know, sit down under reappraise our situation. And we need to make sure that those who directly produce the wealth of the nation actually begin to benefit immensely from that wealth comes from your land. And that's been the reason behind a lot of the talk and clamor for resource control, and so on. And of course, in the past few months, and especially during the elections as well, the Niger Delta youth were quite, quite restive. And I think it was a good opportunity for them to demonstrate that there is a case ought not to go on the way they have been going on, and that for a kind of lull in oil exploration, so that, you know, the kind of benefits that Nigeria ought to have made from

the, you know, decision, I'm afraid there would not be able to come because two production giants, Sherman and Chevron Texaco, for instance, are to shut down and they're, you know, between them, they produce about, you know, 216,000 barrels per day, you know, and, you know, that's a lot of loss. So, if you, I try to monetize all that (unintelligible) . There isn't really any civil unrest, really, down in the Niger Delta tied to this oil as a business. There's of course a few people have talked about, you know, the elections some irregularities here and there, and yes we still have a lot of the (unintelligible) people although they are (unintelligible) in town now. You know, the the stations, the gas, you know, is (unintelligible), you know people have to spend quite a lot time to get their gas to buy but then it about two or three days it came down and people can get gas easily and much more. But this has been going on for about two months, one or two months, since February. Actually since mid-February it's been going on like this. But that's the way it is for now.

Byron Scott 8:52

Well, that's a good update. Thank you. Back to Moscow for a moment. Christopher, tell us what the feeling is in Moscow after Iraq, about the future of energy.

Christopher Kenneth 9:11

What's a point here is that people see the effects of the Iraq war on the local economy in two different forms. They have what we call here short term outlook and long term outlook. In the short term, Russia, this is the official position, Russia is not supposed to lose anything. So some reasons, one, the 2003 budget has been adopted, and during enactment is the Duma and the local House of Parliament. And the figures, the price of oil, were relatively low like \$20 to \$31 per barrel and all along oil prices have been in the range of \$28-\$30. So the government has been able to set up a fund, sort of, to at the moment, comprise several millions or billions of dollars, which would be we enable the government to undo any major issues of volatility on the global oil markets. But now, when we say short term we're talking between now and maybe the end of the year. Well, the study (said) from 2004 and if the current trend continues, and then the Iraqi oil factories are repaired and the Iraqi oil enters the market, which most people think may push down the oil prices. The opinion here is that the economy is likely to suffer starting from 2004, that is the issue affecting the state national economy when we talk about private companies, which invested is the so called Saddam Economy.

Byron Scott 11:14

Like private contractors.

Christopher Kenneth 11:16

Right.

Byron Scott 11:17

Okay.

Christopher Kenneth 11:18

Hello?

Byron Scott 11:19

Yes, go ahead.

Christopher Kenneth 11:20

Like, Lukoil is the number one or the largest oil producer here. (unintelligible). These companies invested billions of dollars to secure some contracts with Saddam. So the fear here is that those companies are likely to lose the money.

Byron Scott 11:41

Yes.

Christopher Kenneth 11:41

And then there is a high possibility that they might also lose the contracts.

Byron Scott 11:46

Okay.

Christopher Kenneth 11:47

Yeah, some of them have given press conferences, and they said that the contract was signed with full observers of international laws, including the UN sanction rules on external economic relations with Iraq.

Byron Scott 12:06

So, let's, let's, yes, let's move if we can to perhaps the as close to the center of all this as we can get John Bradley in Jeddah. What is the what is the Middle Eastern view there particularly what is, what is the Saudi view after Iraq, John?

John R. Bradley 12:28

Well, the Saudis have benefited hugely from the war in Iraq, coupled with the problems production problems in Venezuela in Nigeria, since last, last November, they've been producing some 9 million barrels of oil a day compared to their previous average of about 7 million. I bought a report in the by the Riyadh Bank here and suggested that as a direct result of this next year's budget deficit – projected budget deficit – will be wiped out is the estimated to be some \$10 billion. In fact, there'll be a \$4 billion surplus. This news came just as other news broke that mega \$25 billion gas deal between the Saudi government and various Western corporations had finally been completed and is likely to be signed in the very near future. And so, in the short term, at least, Saudi Arabia benefits and, and it's a good job ready because they're facing huge economic problems here. Unemployment estimated to be anything from about 15% to 30%; at least 70% of the population under the age of 21, population growth of about 4%. And really a very weak economy, which almost exclusively depends on oil exports. Now, the feeding here is so the feeding here is in the short term. it's beneficial. But in the long term, not the government seizing necessarily in Saudi Arabia, but certainly the people's feeling is that the war was all about oil that America now has access and control of Iraqi oil. And this is part of a campaign by the right wing and especially Zionist lobby in America, to marginalize Saudi Arabia, that traditionally has been very dependent on Saudi Arabia,

economically in military and economic and military terms. And that Iraq, in a sense, will marginalize Saudi Arabia as a as a superpower in the region. The U.S. troops are going to leave and people here, many people here feel fear at least that with Iraq's oil going straight onto the market. Saudi Arabia's influences in our producing power will similarly be marginalized.

Byron Scott 14:59

That's a key point. We want to keep that in mind here. We're going to take just a short break and we right remind you that this is Global Journalist on KBIA. We'll be right back.

We're back. This is Byron Scott substituting from KBIA and the Global Journalist for Stuart Loory. We're talking with journalists in Jeddah, Saudi Arabia and Moscow, in Caracas, Venezuela, and in Lagos, Nigeria. Let's go to Lagos. Greg Obombio Schutze (ph?), you, you said earlier in the program that you believe that that the oil production in Nigeria is coming back what, what would that impact be on the world beyond Nigeria. What would the impact of the rebound of the Nigerian oil industry the, on the price of oil perhaps on the economies of the world, as we were talking about earlier?

Greg Ombombio Schutze (ph?) 16:07

Well, I don't imagine that we will be having any special advantage, because during the time of the Iraq, the war in Iraq, was when I think that we could have been able to make some gains. Because Iraq was off the market, and they were not producing, and now the war is over. And things will begin to normalize. And, you know, we'll physically come by the old production quotas that we, we had before. So I don't really see that we could be having any advantages right now, you know, from the way the tradition is presently.

Byron Scott 16:57

What about Phil Gunson from Caracas? If things are settling down there, will that change the balance of things, these are the OPEC and the world economy, do you think?

Phil Gunson 17:08

Well, I think yes, undoubtedly, you know, Venezuela is now according to the government anyway back producing 3.2 million barrels a day, which is what it was producing before the strike. As far as the, the impact here of the events in Iraq, I think there are two related, separate related issues. One, of course, is the eventual impact of OPEC, which President Hugo Chavez has put a lot of energy into reviving when he came to office in '99. OPEC was in was in a pretty bad way. And he was the prime mover in getting in making OPEC into a global player again. So clearly, if the eventual outcome in Iraq we can so pick that ahead, not least because this is where the other aspects of this for, for Venezuela, the issue of relations with the oil producing nations is more than just an economic issue, at least for whichever is what he calls this revolution. It's a geopolitical issue because which I was very keen to reverse what he sees is a very negative tendency towards the, towards a unipolar world dominated course by the United States. And as far as he's concerned, the OPEC nations and the strength of OPEC is very important because that key axis if you like it, though, their key allies

Chávez, listeners may remember was the only president, the only foreign presidents who actually visited so that was, say, between the first and second Gulf wars.

Byron Scott 18:38

I had forgotten that, the, and that, that visit was an oil linkage related or politically related visit.

Phil Gunson 18:50

When it was presented purely and simply as oil related, what Chávez said was, well, I'm visiting all the OPEC heads of state to invite them to an OPEC conference, which did eventually take place in Caracas, and I can't leave out that I'm saying he's a member of OPEC. But clearly, anybody who's followed the politics of Venezuela, politics of Chávez, was perfectly clear that there was a geopolitical aspect to this as well, because Chávez is looking to strengthen any alternative poles of power in the world, which are independent, or at least semi-independent of the United States. And in that sense, I think you could say that with the, with the war in Iraq, Chávez, to some extent lost a strategic ally.

Byron Scott 19:39

I think that the comments of all of you gentlemen, tell me that here in the United States, which might be characterized as an oil eating economy rather than an oil exporting economy, that we have a lot of mythologies about what a plethora of oil brings. It brings neither political stability nor an overall population prosperity. It just seems to bring, seems to bring in its effect troubles. John Bradley in Jeddah what, what do you think is the future of the Saudi leadership in OPEC?

John R. Bradley 20:25

Well, firstly, I think your, your analysis of what oil does for America is, is based on misconceptions. I mean, the oil in fact brings economic growth and stability to America in a way that almost nothing else does. The Saudis, for example, have been selling America oil at about \$1 per barrel and less than they have for the rest of the world, and for that very reason that Americans, America being a car culture is crucial of course.

Byron Scott 21:01

And we still complain about gasoline prices. Yes. Okay. No, I agree with you there. Please go on John.

John R. Bradley 21:08

The future of Saudi Arabia and OPEC will be pretty much what it has been for the short term. But the other big mistake people are making is thinking that the, the vast reserves in Iraq are suddenly going to flood the market and change things in a very dramatic way very quickly. Now, there's no doubt that Iraq has huge reserves. But the oil industry there is in a state of disrepair. And most all experts agree that he's going to take at least 10 years for it to really come into its own and just getting back to the 3 million or so barrels a day. What was normal for Iraq around the time just before the first Gulf War in 1990 is going to be a huge achievement in itself. There was lots of talk, if you

remember, before the Afghanistan campaign, that access to Caspian Sea oil would dramatically undermine OPEC and free the oil industry from OPEC's grip and that didn't happen. The reason it didn't happen is because the firstly the oil reserves estimates regarding the Caspian Sea were optimistic but grossly over optimistic it seems now, and the second reason was that these things just don't happen overnight. Everyone wants everything to happen almost immediately, and they can't really conceive of things anymore, whether it comes to rebuilding Iraq, for example, or whether it, whether it comes to getting oil, Iraq's oil onto the market, that these are very long term things.

Byron Scott 22:43

These refer back to some of the long term things that Christopher Kenneth was talking about, for example, we need to look, we need to take the long view rather than the, rather than the short view which often, so often turns to be inaccurate. Is that what you're saying?

John R. Bradley 23:01

Yeah, I mean, regarding oil specifically, but regarding many things, many other things as well. I mean, we live in a sort of 24-hour news environment. And I think that's had a very negative effect on world politics when it comes to big issues because people aren't really interested in, in sitting down and being patient and thinking about things long term. Okay, we've gotten through a, we don't mind Saudi Arabia, let's marginalize Saudi Arabia by bringing out Iraq's oil and undermining. Okay, well, fine. If that's your take, it's a nice idea. But it isn't going to happen in the very short term. And they have to think about 10 years, 15 years rather than sort of 10 days, 15 days.

Byron Scott 23:44

Well, if we think 10 years back, we see a whole different cast of characters in terms of perceived heroes and perceived villains in this, in this energy area. Let me, we're getting ready to wrap up here. And I want to give each of you the opportunity to give us that long term view from your own nations and for the world in regards, in regards to oil. And let me start with the fellow who was speaking originally about long term. Christopher Kenneth in Moscow. What is the long term view from the Russian's perspective do you think?

Christopher Kenneth 24:29

The long term here, because of the Russian economy the time we use here is not the traditional implication. Short term here really short term, or what I mean long term we've just talking is just 2000. But if the current trend continues, and the Iraqi oil enters the market, the fear here is that the global oil prices we afford and then how bad consequences for the Russian economy because the whole economy is oil dependent, more than 50, about 50%, 75% of the revenues from oil or oil related industry.

Byron Scott 25:15

And I'd like to, I wish we had time to come back to that. But Phil, Phil Gunson from Caracas, in one minute or less the future of oil and OPEC from the Venezuelan perspective.

Phil Gunson 25:30

Yeah, in Venezuela, like everything else here, there's a total division between government and opposition. About the only thing they all agree on is that the country is excessively dependent on oil. And this has to stop because the economy has to be diversified, and that oil has been a major factor which has prevented diversification of the economy. The government thinks that by maintaining a high oil price and a strong OPEC, it can achieve the resources it needs in order to do that. Many people in the opposition, especially oil specialists believe that OPEC has really been bad for that as well, and that it caused Venezuela to lose market share. And regardless of occasional price spikes, the long term perspective is very bad. So, I think a political conflict here is taking precedence over everything else until we get that sorted out, it's very unlikely that there's going to be a serious and coherent policy in place.

Byron Scott 26:25

Greg Obombio Schutze (ph?) from the Daily Independent, Lagos, Nigeria. Greg, the Nigerian perspective.

Greg Ombombio Schutze (ph?) 26:32

Yeah, I think that for a long time to come, oil is gonna continue to play very, very central role in our, in our politics as well because I mean, we get about 90% of foreign exchange earnings from oil every year, and then everything is controlled from the center. That's why there's so much attention on the center. Everybody wants to, you know, how they apply all that pain and so on. And it certainly would affect our politics for a long time to come until we are able to, you know, find a way to decentralize the amount of enormous political parties and right now, which is one thing that the military — when the military came in, in the end of the first Republic, they centralize all (unintelligible), but no civilian government ever seen, has been able to decentralize that power. So I think that a long time to come, oil will continue to be central, but of course, that gas is beginning to come in for reckoning. So, I imagine that such will begin to, you know, deemphasize the the, the power that oil plays, but that will still be a long time to come.

Byron Scott 27:39

And I think we probably ought to do another program on just on just that subject in the future. But for tonight, we have to wrap up. I'd like to thank all of our participants from Moscow, Jeddah, Caracas, and Lagos. I'd also like to thank our producers, Gus Pang, Sarah Fajardo, our electronic miracle maker and sound engineer, Pat Akers. This is Byron Scott, substituting for Stuart Loory. We'll be back next week. Good night from Global Journalist.