

Saudi Arabia likely to become a failed state as oil revenues decline

Written by Nafeez Ahmed on 7 October 2015



A 'perfect storm' of interconnected crises could see the autocratic Saudi state disintegrate within ten years, argues Nafeez Ahmed.

Last September, a senior Saudi royal called for a "change" in leadership to fend off the kingdom's collapse.

In a letter circulated among Saudi princes, its author, a grandson of the late King Abdulaziz Ibn Saud, blamed King Salman for endangering the monarchy's survival.

Informed observers think such a prospect "fanciful", but the letter's analysis of Saudi Arabia's predicament is startlingly accurate. The House of Saud is on the brink of a perfect storm of interconnected crises that could be the monarchy's undoing within the next decade.

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Saudi Arabia's primary source of revenues, of course, is oil. For the last few years, the kingdom has pumped at record levels, keeping global oil prices low, and undermining OPEC rivals - who cannot afford to stay in business at such squeezed profit margins.

But Saudi Arabia's spare capacity to pump like crazy can only last so long. A new peer-reviewed study in the Journal of Petroleum Science & Engineering anticipates that a peak in Saudi Arabia's oil production, followed by inexorable decline, is due for 2028.

According to Texas petroleum geologist Jeffrey J. Brown and Dr. Sam Foucher, though, it's not just about production. The key issue is translating production into exports, against rising rates of domestic consumption.

Brown and Foucher showed that the inflection point to watch out for is when an oil producer cannot increase the quantity of oil sales abroad, because of the need to meet rising domestic energy demand.

They found that from 2005 to 2015, Saudi net oil exports have experienced an annual decline rate of 1.4 per cent. Citigroup backs them up, recently predicting that net exports would plummet to zero in the next 15 years.

So Saudi state revenues, 80 per cent of which come from oil sales, are heading downwards, terminally.

Saudi Arabia is the region's biggest energy consumer, domestic demand having increased by 7.5 per cent over the last five years alone.

Demographic expansion, estimated to grow further from 29 million people today, to 37 million by 2030, is a major driver of demand. As the larger population absorbs Saudi Arabia's energy production, the next decade will see the country's oil exporting capacity evermore constrained.

To wean domestic demand off oil dependence, Saudi Arabia decided to invest in renewable energy, hoping to free up capacity for oil sales abroad, thus maintaining state revenues.

But earlier this year, this prescient strategy was dumped for military adventurism. The kingdom announced an eight year delay to its €97bn solar programme, which was supposed to produce a third of the nation's electricity by 2032.

Meanwhile, state revenues have been hit by rocketing military spending for the war in Yemen, as well as from declining profits from its own efforts to keep oil prices low to undermine competing producers.

Now Saudi Arabia's considerable reserves are being depleted at unprecedented levels, dropping from a 2014 peak of €655bn to €597bn in May - falling by about €10.6bn a month.

At this rate, by late 2018 the kingdom's reserves could drop as low as €177bn.

King Salman's response has been to simply accelerate borrowing. What happens when over the next

few years, reserves deplete, debt increases, while oil revenues remain strained?

In Egypt, Syria and Yemen, reduced subsidies and rocketing food and oil prices inflamed the grievances that generated the 'Arab spring' uprisings.

Saudi Arabia's oil wealth underpins its ability to fend off the risk of civil unrest through lavish domestic subsidies. Energy subsidies alone make up about a fifth of Saudi's GDP.

Declining revenues from declining oil exports will translate in the kingdom's decreased capacity to keep a lid on rising domestic dissent.

About a quarter of Saudis are in poverty, while unemployment is at about 12 per cent, mostly young people - 30 per cent of whom are unemployed.

Climate change is pitched to heighten such economic problems, especially concerning food and water.

At 98 cubic metres per person per year, the kingdom is among the most water scarce in the world. About 70 per cent of domestic water supplies are met through desalination plants, accounting for over half of domestic oil consumption. As oil exports and state revenues run down amid increasing demand, costly desalination won't be able to keep up.

Saudi Arabia is experiencing stronger interior warming and northern rainfall deficits due to climate change. By 2040, local temperatures could go as high as 4 degrees Celsius, while extreme weather events like droughts and flash flooding would worsen.

This of course could undermine agricultural productivity, already strained from overgrazing and unsustainable industrial agricultural practices that are intensifying desertification.

Most water withdrawal is from groundwater, 57 per cent of which is non-renewable, and 88 per cent of which goes to agriculture.

As 80 per cent of Saudi Arabia's food requirements are purchased through heavily subsidised imports, the decline in state revenues mean the country will be increasingly vulnerable to global food price fluctuations.

In Iraq, Syria, Yemen and Egypt, the risk of conflict was compounded due to declining state power in the face of climate-induced droughts, agricultural decline, and rapid oil depletion - interconnected trends now unfolding apace in Saudi Arabia.

The implication is that on its current course, the kingdom is on the brink of protracted state-failure, a process likely to unfold over the next decade with increasing visibility.

About the author

Nafeez Ahmed is editor of INSURGEintelligence, a new crowdfunded investigative journalism platform.

He is a columnist for VICE's science magazine, Motherboard, and for Middle East Eye in London and is a visiting research fellow at Anglia Ruskin University's Faculty of Science and Technology.

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