Our View: Crude Oil – More Buyer Resistance

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Oil-exporting countries, particularly the OPEC+ members, confront an increasingly difficult problem: selling their crude. This is not the first time. Forty years ago, the OPEC nations faced declining oil demand. Their production dropped from twenty-nine million barrels per day in 1980 to seventeen million barrels per day by the end of 1984. Saudi Arabia absorbed much of the decrease.

At the same time, non-OPEC output rose fourteen percent from thirty-seven million barrels per day to forty-two million barrels per day. Prices eventually collapsed when the Saudis abandoned their effort to sustain high prices. The Kingdom's output fell from ten million barrels per day in 1980 to just 3.6 million barrels per day in 1985. Through the first half of the decade, OPEC producers repeatedly called on refiners to buy more of their oil. Integrated companies such as BP, Exxon, Mobil, Texaco, and Shell refused, citing increases in their own production.

Today, OPEC+ members are in a similar squeeze as non-OPEC output rises. The impact of that rise is magnified by the economic stagnation in China, the organization's largest buyer, and the prospect of a coming trade war. The United States' role as a large oil and natural gas exporting nation will put increasing pressure on the group.

Going into 2025, a key question for oil market participants is whether OPEC+ will keep ceding market share by cutting production as global use stagnates and non-OPEC nations continue to boost output.

One of the better songs in the 1980 musical Oliver begins with the words, "Who will buy my sweet red roses?" When the show premiered that year, no oil-exporting country would have had to ask, "Who will buy my crude oil?" Consumers were desperate for crude as the oil war between Iraq and Iran disrupted markets. In the 1980s and for decades after, refiners desperately fought to win and hold on to monthly allocations from Saudi Arabia.

Refiners who sought highly valued Saudi crude for more than four decades are no longer enamored of it. On November 12, Argus Media reported that European refiners were not pleased with the prices Saudi Arabia announced for December 2024. They believed the Europe differential should have been reduced by around $0.50 per barrel. Instead, the Saudis boosted it by $0.25. This did not sit well with everyone, as Argus reported:

> Saudi state-controlled Aramco will supply at least two of its term crude buyers in northwest Europe and the Mediterranean region with their requested December-loading crude, **while at least one refiner opted to skip Saudi allocations for the month** [emphasis added].[1]

[1] Melissa Gurusinghe, "European interest in December Saudi Crude falls," Argus Media, November 12, 2024.

The report quoted the disgruntled refiner, who said there was a "plentiful supply of competitively priced alternatives on the spot market."

There have been other occasions when refiners shunned their Aramco allocations. In the early 1980s, Exxon and other majors reduced buying as inventories built, much to Saudi Arabia's dismay. Some may have cut purchases entirely. However, we do not recall a buyer ever publicly announcing there were better-priced alternatives.

Under these circumstances, projections for increased global oil use in 2025 and 2026 must be reviewed. Today, oil producers, refiners, and marketers need to consider that the outlook for oil use may change significantly within the next year. The risks are mostly on the downside.

Ultimately, the question of "who will buy my oil" may become more widespread.