

## Our View: Has the IEA's Executive Director Become the Clown Prince of Oil?

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December 3, 2015

Today, the International Energy Agency's executive director, Fatih Birol, made remarks regarding the oil market of such ridiculousness that one must ask whether he is now the "Clown Prince of Oil." The remarks came in a statement offered to Reuters. According to the news service, Birol said this regarding the December 4 OPEC meeting:

"I trust Saudi Arabia will act responsibly in line with its reputation," Birol, who worked for OPEC before joining the IEA 20 years ago, told Reuters on the sidelines of the global climate change summit in Paris. "It's up to them to decide, but Saudi Arabia's reputation is that it provides comfort to the market and balances it."<sup>1</sup>

Birol seems not to understand that circumstances have changed. Thanks to the need to limit future global hydrocarbon consumption, a topic on which his agency has written a great deal, oil reserves of Middle Eastern countries are now threatened with obsolescence. Oil not produced today from nations with large reserves will never be produced. Hence, to "act responsibly," as suggested by Birol, Saudi Arabia would need to shut in some volumes of oil in perpetuity, oil it planned to produce in 2016. This would be a huge sacrifice, something Birol clearly does not recognize.

In addition, Birol has not been acquainted, apparently, with the microeconomics of industry concentration. The oil market is not concentrated today. The price elasticities are such that a unilateral cut in production by Saudi Arabia would reduce the nation's income rather than increase it. Saudi Arabia's budget deficit would rise while those of other countries would decline. Why does Birol believe Saudi Arabia would take such an action?

In his statement, Birol asserted that Saudi Arabia's reputation is one of providing "comfort to the market" and balancing it. This is a nonsensical comment. In the past, Saudi Arabia has coordinated joint efforts involving a number of countries to cut production and raise prices. The Kingdom also, like a true monopolist, maintained surplus capacity when producers still enjoyed some control over the market.

Today, producers have no control. Conditions in the oil market are no different from conditions in markets for corn, wheat, or most other agricultural commodities. Good economists get this. The Clown Prince of Oil does not.

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<sup>1</sup> Barbara Lewis, "Oil Consumer Group IEA Chief Trusts Saudis to 'Act Responsibly' on Market," Reuters, December 3, 2015 [<http://goo.gl/POFCWp>].