

## **U.S. TROOPS FOLLOW THE FLAG**

Since 1986, Saudi Arabia has maintained a very long-term perspective on crude production, market share and pricing. Saudi Arabia's strategic perspective has emphasized maintaining market share for long term production stability. As a result, Saudi Arabia has been willing to accept short periods of weakness in pricing and periods of unusual pricing volatility.

PWI believes that Saudi Arabia's ruling royal family has begun to modify its long-standing strategic view for crude oil production. Developments in world crude oil markets during the past few years strongly indicate that Saudi Arabia's royal family has substantially shortened its strategic time horizon. James Cutler, a Petral Worldwide principal and its key international analyst, believes that undercurrents of dissent in Saudi Arabia and the looming issues of succession from the current generation to the next generation has prompted Saudi Arabia to become much more short term in its strategic orientation.

Cutler notes that Saudi Arabia's gross revenues are at all time high of \$75-80 billion dollars per year. Even though gross revenues are at an all time high, Dr. Cutler believes that Saudi Arabia's royal family has lost confidence in its long-term viability. This loss of confidence in the future is reflected by the reluctance of wealthy Saudis to reinvest in their country. This loss of confidence has also prompted Saudi Arabia to recently invite nine private oil companies back to the kingdom to participate in natural gas exploration and development as equity partners. This shift in strategic perspective also indicates that Saudi Arabia will be much more likely to curtail crude oil production rates to sustain prices and total revenue and will be much less likely to emphasize maintaining its market share in key markets including the United States.

The shift in Saudi Arabia's strategic perspective has important implications for crude oil prices during the next few years. Saudi Arabia is much more likely to support price hawks within OPEC. OPEC will be much more likely to agree quickly on production curtailments. Saudi Arabia's shift will prompt other members of OPEC in the Middle East such as Kuwait to endorse production curtailments in support of higher prices.

PWI believes that Saudi Arabia's shift to a shorter-term perspective is the underlying reason for its endorsement of OPEC's price band strategy and is ultimately more important than OPEC's current strategy. Saudi Arabia's shift to a shorter time horizon will lead to higher crude oil prices and tightening availability during the next five years.

Finally, PWI believes that a substantial U.S. investment in Saudi Arabia underscores the U.S. commitment to provide Saudi Arabia with defense assistance. Cutler cites the maxim: "The flag follows the money and the troops follow the flag."