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OPEC Civil War: Saudi Arabia Closes Its Ports To Iranian Oil

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Saudi Arabia banned ships carrying Iranian crude oil from entering the country's waters Monday, escalating the Organization of Petroleum Exporting Companies' (OPEC) internal civil war.

Iranian vessels carrying the crude oil are restricted from entering ports in Saudi Arabia and Bahrain, according to a Monday article in The Financial Times. The ban is the latest in the escalating OPEC civil war between Saudi Arabia and Iran. Iran was also denied access to insurance, financing and key oil storage facilities owned by Saudi Arabia.

"The Saudis have been clear that they won't agree to an OPEC production freeze unless Iran also does so," Emma Ashford, an expert in oil politics at the libertarian Cato Institute, told The Daily Caller News Foundation. "But the Iranians are intent on increasing exports post-sanctions, and have stated that they will only freeze production once exports reach pre-sanctions levels. When you add that to the ongoing political tensions between the two sides, the Saudis have an interest in trying to prevent Iranian oil from reaching market."

Diplomatic tensions between Saudi Arabia and Iran have expanded into the economic sphere, with both countries battling for oil market share. Saudi Arabia and three other Sunni nations cut diplomatic ties with Iran in January and have been trying to prevent Iranian oil from reaching the global market.

"The restrictions will certainly make it a bit more difficult for the Iranians to bring their oil to market, by restricting access to some pipelines and supply routes," Ashford continued. "But Iran is both ramping up production, and still trying to sell oil which has been stockpiled at sea. In the long run, these restrictions won't prevent that."

The escalating conflict between Saudi Arabia and Iran could undermine OPEC's plans to increase the price of oil by freezing production starting April 17. A senior Saudi official, however, announced last week that the Kingdom would not freeze output unless Iran does, which Iran simply cannot agree to.

Iran hasn't produced much oil recently after seriously investing in its oil sector for years due to sanctions. Simply restoring previous oil production levels is estimated to require a minimum $150 billion of new investment and could cost Iran up to $500 billion over the next five years, according to reports by the country's state-run news agency. Iran desperately needs the kind of quick cash that only selling oil on the global market can provide.

“Iran has a longstanding inflation problem and having a source of hard currency like oil sales would help their economy,” John Gay, an editorial staffer at The National Interest who covers Iranian issues, told The Daily Caller News Foundation. “This is another example of the Saudis trying to create resistance to Iran in the region. I think that they are nervous about Iran’s role. The U.S. isn’t doing as much in the region as the Saudis would like. The Saudis can do stuff like this, but they are a weaker country than Iran in some ways. Their efforts to resist Iran are certainly unpleasant, but they’re not a huge hindrance.”

Saudi Arabia is partially responsible for low oil prices and has used its oil production as a weapon in its rivalry with Iran. Cheap oil hurts Iran and American hydraulic fracturing, or fracking, more than it hurts Saudi Arabia.

Despite this relative resilience, Saudi Arabia is expecting a budget deficit of $140 billion— roughly 20 percent of the Saudi economy. When compared to 2013’s surplus of $48 billion, the fiscal outlook for the Kingdom looks so dire, the International Monetary Fund warned it could go through its fiscal reserves within five years. Saudi oil export revenues dropped 46 percent in just the last year and the country is selling bonds for the first time since 2007.