Why Is the Middle East Facing an Oil Storage Crisis?

The Middle East, one of the world's greatest oil producing regions, is facing a shortage crisis of unprecedented proportions. That's because the prolonged lockdown measures being enforced across the globe to combat the spread of coronavirus have led to a sharp drop-off in demand, meaning that there is so much surplus crude on the market that traders are struggling for places to store it.

Indeed, the storage crisis is one that's being felt all over the world, and it has become so serious that it's even precipitated the first negative oil price in history. With US producers now extracting the oil at a faster rate than they are capable of selling or storing it, they are actually being forced to pay traders to take it off their hands.

Corona making its mark on the oil industry

With well over 3.5 million diagnosed cases of coronavirus – and over a quarter of a million deaths from the disease – COVID-19 is making itself felt all across the globe and the oil industry is no exception. With many industries having to cease operations, airlines all but shutting down and private citizens no longer taking their car to work, the demand for oil has fallen at an alarming rate.

This has meant that traders have been forced to store the substance rather than sell it, in turn leading to a shortage of storage capacity. Fujairah Port in the UAE is just one striking example of this phenomenon, where stockpiled reserves of fuel oil and other heavy substances have risen by almost a third in the last year, to an all-time high of 15.4 million barrels.

Although the Fujairah Oil Industry Zone authorities do not keep such detailed records on crude oil reserves, it's expected that the current 12-million-barrel capacity of the port will soon be exhausted. With an expansion of 62 million barrels not due to be completed until next year, space is at an absolute premium.

Cuts not adequate

In a bid to offset the drop-off in demand, the Organisation of the Petroleum Exporting Countries (OPEC) and its allies (including Russia) came to an agreement to slash production output by 9.7 million barrels per day last month, after a lengthy stand-off. Other oil-rich countries, such as Canada and the USA, are expected to follow suit due to the fact that the price has fallen to such a level that profit is impossible.

However, industry experts Trafigura Group have estimated that the 9.7 million deficit – even if bolstered by a corresponding drop-off in production in the Americas – will not totally compensate for the slump in demand brought about by COVID-19. According to the organisation, oil consumption is expected to continue at around a third below its normal levels due to the ongoing quarantine measures.