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Saudis know they have Opec over a barrel

Global oil prices will be controlled by the countries with spare capacity

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Amid the doom and gloom of Opec's latest meetings in Vienna, the popular media managed to miss the "good news" story for consumers: price moderates still exist and, more importantly, the Gulf Co-operation Council countries remain the power behind the throne of the oil cartel. They are all that matters in terms of spare capacity – Saudi Arabia, Kuwait, the United Arab Emirates and Qatar. Market control is by no means absolute, but, for better or worse, Riyadh is at least willing to retake the wheel.

It's therefore strange that Iran stole the limelight in Vienna. Yes, Tehran managed to rally Venezuela, Iraq, Algeria, Angola (and what remains of Libya) to its side to block Riyadh's proposed 1.5 million barrels-a-day increase in output. But will this matter to paper or physical markets? No; not if the Saudis have anything to do with it.

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Price preferences have long been the dividing lines between moderates and hawks, but the real divide is now between those with the ability to pump more oil, and those without it. Riyadh has it; Tehran doesn't. The kingdom will have the last word on volume and price, and it can play the game either way: expand production to moderate prices where others can't, to inflict fiscal – and political – pain across Opec ranks, or it can cut production at a time of the al-Sauds' choosing.

Instead of forcing a showdown with Riyadh, and leaving the "official" quota system in tatters, it would have been far better for Tehran to have agreed to the production increases and let the Saudis unilaterally fill the void.

That is precisely what the kingdom has been doing to enhance production to over nine million barrels a day of late, and it is exactly what it will still do, in light of the meetings, towards 10 million barrels a day.

The beauty for Riyadh is that it can now do so irrespective of Opec positions; politically translated, that means the Saudis now hold the political fortunes of Iran, Venezuela and Algeria in the palm of their hands.

Yet Riyadh's main fillip is not just within the cartel, but with consumers. Room for manoeuvre has closed, but the al-Sauds could still let prices drop to US$88 a barrel to balance books. Anything around (or under) US$100 a barrel is a benchmark price that Beijing, Brussels and Washington could live with, but one that most Opec states would find horribly creaky.

The Saudis know this; and they also know they could still let prices increase rapidly should Washington go against the Saudi grain in Egypt, Bahrain or elsewhere. So, sour days for Opec, sweet for the Saudis? Probably, at least if the al-Sauds stay the course. Otherwise it's antacids all round, please.

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