

U.S. Shale Poses a Looming Challenge to Saudi Energy Policy

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Brief Analysis

A Saudi prince's tweet has focused attention on a likely fall in the price of oil, which could boost the global economy while causing instability in the kingdom.

On July 28, billionaire Saudi investor and self-publicist Prince Alwaleed bin Talal posted an extraordinary letter on his Twitter account. Dated May 13 and previously sent to Oil Minister Ali Naimi, King Abdullah, and others, the letter declared, "Our country is facing continuous threat because of its almost total dependency on oil...We see that rising North American shale gas production is an inevitable threat." The prince called for government action to hasten economic diversification.

The letter itself and especially its publication are major events in Saudi political terms -- an effrontery compounded by the implication that Alwaleed was annoyed by whatever response he received (or lack thereof) when he sent the letter in May. Decisions on Saudi oil policy are tightly controlled by the king and a small group of senior princes, with their execution entrusted to Naimi, a long-serving technocrat whose competence and sagacity are respected across the world. Riyadh frowns on public debate about policy issues, especially when it suggests differences in the royal family.

Although Alwaleed is well known internationally for his business activities, he is usually considered irrelevant in Saudi decisionmaking. His standing has long been impaired because his father (Prince Talal, a half-brother of King Abdullah) has a reputation for eccentricity, while his mother is of Lebanese rather than Saudi origin. Although Alwaleed could be solely responsible for the controversial letter, there is speculation that he may have been voicing his father's thoughts or fronting for a group of other princes.

Whatever the case, the letter makes valid points that are usually confined to discussions among energy analysts. Global natural gas supplies are growing faster than oil supplies, and the largest growth in oil supplies will come from non-OPEC producers such as the United States, Canada, and Brazil. In response, Saudi Arabia and other OPEC

members will likely ease back on production in a bid to maintain high prices. This will strain OPEC discipline and Riyadh's ability to control the cartel. The kingdom may have to decrease its own production disproportionately, which would reduce government revenues.

Although low oil prices are good for the global economy, Saudi budget difficulties could affect the increased spending that has largely prevented the social discontent in other Arab countries from sweeping the kingdom. Since leading the 1973 Arab oil embargo in protest of U.S. support for Israel, the Saudis have evolved their oil policy into a partnership with Washington, attempting to maintain steady supplies and smooth price fluctuations. In recent months, for example, the kingdom has increased its supplies in order to offset Iranian cutbacks resulting from U.S.-led nuclear sanctions on Tehran.

So far, there has been no official Saudi reaction to Alwaleed's letter, and the Oil Ministry declined to comment to journalists. Several years ago, the prince made a comment about Lebanon that spurred an official statement dismissing his intervention. This time, the kingdom is caught in a dilemma: not commenting may suggest blindness to a growing policy challenge or indecisiveness by the ailing King Abdullah and the dementia-suffering Crown Prince Salman. U.S. officials should begin working with the leaders of Saudi Arabia and other Gulf oil producers (e.g., Kuwait and the United Arab Emirates) so that changing energy markets are not as much of a surprise to Arab allies as the past two years of regional uprisings have been.

Simon Henderson is the Baker fellow and director of the Gulf and Energy Policy Program at The Washington Institute. ♦

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