

# Saudi Arabia's Oil Policy Vacancies

by [Simon Henderson \(/experts/simon-henderson\)](/experts/simon-henderson)

Jan 7, 2011

## ABOUT THE AUTHORS



[Simon Henderson \(/experts/simon-henderson\)](/experts/simon-henderson)

Simon Henderson is the Baker fellow and director of the Bernstein Program on Gulf and Energy Policy at The Washington Institute, specializing in energy matters and the conservative Arab states of the Persian Gulf.



Brief Analysis

**D**uring the past three months, world prices for oil have steadily increased, leading to predictions that the \$100 per barrel level will soon be breached. Although, in part, the increases reflect recovering demand in the world economy, the Paris-based International Energy Agency (IEA) warned this week that prices are entering "a dangerous zone" that threatens economic recovery. In the past, Saudi Arabia, the world's largest oil exporter, has been careful to avoid such criticism by using its market strength to influence prices. But owing to the poor health of many of its leaders, Saudi Arabia's ability to continue to manage this role effectively is open to scrutiny.

## Health Problems in the Leadership

**K**ing Abdullah of Saudi Arabia, who turns eighty-eight this year and is also prime minister and main decisionmaker, has been in the United States since late November for medical reasons. He has had two back operations and, although now convalescing at the New York Plaza Hotel, is not expected to return to the kingdom for several weeks. He has not been seen in public since leaving the hospital on December 22, walking stiffly. When Vice President Joe Biden visited the hospital a week earlier, he was reported to have met the king's family rather than the king himself, although President Obama spoke by telephone to the king on December 26. (Secretary of State Hillary Clinton is due to meet him in New York on January 7, before setting off on a trip to the Gulf.) When Abdullah leaves the United States, he is likely first to take vacation time at his palace in Morocco.

In the king's absence, weekly meetings of the Council of Ministers have been chaired by Crown Prince Sultan, the deputy prime minister, whose own mental and physical health has been increasingly subject to question. Sultan, who will be eighty-seven this year, is believed to be suffering from a form of dementia, possibly Alzheimer's disease. This speculation was bolstered by a March 2009 cable from the U.S. embassy in Riyadh, published recently by WikiLeaks, noting cryptically that Sultan was "for all intents and purposes incapacitated."

Effective power in Saudi Arabia is presently judged to be in the hands of the second deputy prime minister and interior minister, Prince Nayef, although he is careful at Council of Ministers meetings and in public not to appear to be usurping his elder brother Sultan's role. Nayef has also represented the kingdom at meetings of Arab interior ministers in Egypt and at the annual summit of the Gulf Cooperation Council, held in December in Abu Dhabi, the capital of the United Arab Emirates. Although, at seventy-seven, he is significantly younger than the king and crown

prince, Nayef himself is reported to have unspecified health problems. During a news conference in Mecca in November, journalists observed that he depended on aides to help him answer questions.

The House of Saud, as the Saudi royal family is known, appears overwhelmingly to be playing along with the charade of normalcy. A sole dissident voice has been that of Prince Talal, who, like Abdullah, Sultan, and Nayef, is a son of the late King Abdulaziz (Ibn Saud). He is the only such son to have publicly questioned the 2009 appointment of Nayef as second deputy prime minister because this appointment implied he was likely to become the next crown prince. In a posting on his personal website, Prince Talal expressed puzzlement over why Crown Prince Sultan was chairing Council of Ministers meetings, noting that "transparency...in...Saudi Arabia, is different from that in the USA." Prince Talal added that he looked forward to the return of King Abdullah to the kingdom, warning that, if delayed, "some essential pending issues...shall get more complicated and may be impossible to solve."

## Decision Needed over Oil Minister's Future

**T**he king and other senior princes are assumed to approve major oil policy decisions, but day-to-day operations of the Saudi Oil Ministry are the responsibility of its administrative head, seventy-five-year-old Ali al-Naimi, whose current term as oil minister ends within two months. In December, al-Naimi was asked by the government to nominate a potential successor. The respected energy newsletter *Middle East Economic Survey* commented that neither of two reported nominees would be able "to fill Mr. Naimi's shoes easily." The newsletter reported that, at a time of uncertainty regarding Saudi succession, al-Naimi would continue as minister, even if his personal preference were to retire.

During his fifteen years as oil minister, al-Naimi has achieved a reputation for brief comments that usually calm the oil markets. Last November, he noted that a price range of \$70-\$90 per barrel was tolerable for consumers. At a meeting of the Organization of the Petroleum Exporting Countries (OPEC) cartel in Ecuador in December, he changed this range to \$70-\$80 per barrel. Disappointing oil-consuming states, the OPEC ministers decided to hold production at existing quotas. Al-Naimi was quoted as saying, "The market is in balance and is stable. The fundamentals are good." (In the past, OPEC ministers have blamed price increases on market speculators.)

## Danger Zone for Oil Costs

**W**hen the IEA, the world's leading energy watchdog, warned of "oil prices entering a dangerous zone," the intent was apparently to prompt higher oil production by OPEC members. IEA chief economist Fatih Birol noted that oil import bills were becoming a threat to the economic recovery: "This is a wake-up call to the oil consuming countries and to the oil producers." In an interview with the *Financial Times*, Birol responded to al-Naimi's favored \$70-\$80 per barrel range: "It is not in the interest of anyone to see such high prices." OPEC ministers are not expected to meet again before June to consider any increase in production quotas, a move that would likely ease prices.

## Challenges for U.S. Policy

**B**esides oil, Washington looks to Saudi Arabia for support on a range of Middle East policies. Overall, the two states have agreed and cooperated broadly, despite differences. But much depends on personal relationships, which are difficult to maintain in today's shaky leadership scene. The fiction of business as usual in the House of Saud and the kingdom's administration is becoming increasingly hard to sustain. Although conventional wisdom holds that Saudi royals will act to ensure their continuing power and make any succession smooth, no evidence indicates the actual unfolding of such a process. Indeed, it is possible that apparent indecision obscures what is yet another episode of the long-running tension within the royal family between the twenty surviving sons of Ibn Saud, divided between the so-called Sudairi full brothers, including Sultan and Nayef, and the others, including King Abdullah and Talal. The current preeminence of Nayef suggests that a tentative succession plan announced in 2006, by which an

Allegiance Council would agree on the selection of future kings, will not be implemented.

A particular challenge for the United States is that rising oil prices undermine policy on Iran. Sanctions targeting the Islamic Republic are intended to cause lower oil revenues, with the hope of forcing Tehran to reconsider its suspected nuclear weapons ambitions. Yet figures released last month by the U.S. Department of Energy show that the policy is undermined embarrassingly by oil price trends. Iran's January-November 2010 revenues were \$64 billion, an actual increase of \$11 billion over the full-year 2009 figure. The revenues of OPEC -- of whose members Iran is the second largest exporter, after Saudi Arabia -- are expected to increase again in 2011.

An additional problem is that Iran has been chosen by OPEC members for the cartel's 2011 presidency. Although Saudi Arabia has traditionally used its market muscle to influence, if not dictate, OPEC policy, the present uncertainty about leadership suggests Saudi vulnerability, especially with Iran chairing the meetings. In the past, U.S. dislike for OPEC's control of prices has usually been offset by Saudi Arabia's helpful stance in ensuring the smooth supply of oil to world markets. Such a stance is now somewhat in doubt.

So far, the Obama administration's long-term energy policy has emphasized the need for development of clean energy, energy independence, and concern for the environment. The oilspill disaster in the Gulf of Mexico has further deepened an antipathy toward further exploitation of domestic oil reserves. But it looks as though, in the short term, U.S. leadership will need to encourage OPEC to produce more oil, since Saudi Arabia, its potential ally in carrying out such a policy, might not be able to deliver.

*Simon Henderson is the Baker fellow and director of the Gulf and Energy Policy Program at The Washington Institute. He is the author of [After King Abdullah: Succession in Saudi Arabia \(/templateC04.php?CID=315\)](/templateC04.php?CID=315). ❖*

## RECOMMENDED

### BRIEF ANALYSIS

#### [Unpacking the UAE F-35 Negotiations](#)

Feb 15, 2022

◆  
Grant Rumley

[\(/policy-analysis/unpacking-uae-f-35-negotiations\)](/policy-analysis/unpacking-uae-f-35-negotiations)



### ARTICLES & TESTIMONY

#### [How to Make Russia Pay in Ukraine: Study Syria](#)

Feb 15, 2022

◆  
Anna Borshchevskaya

[\(/policy-analysis/how-make-russia-pay-ukraine-study-syria\)](/policy-analysis/how-make-russia-pay-ukraine-study-syria)



BRIEF ANALYSIS

## **Bennett's Bahrain Visit Further Invigorates Israel-Gulf Diplomacy**

Feb 14, 2022



Simon Henderson

[\(/policy-analysis/bennetts-bahrain-visit-further-invigorates-israel-gulf-diplomacy\)](/policy-analysis/bennetts-bahrain-visit-further-invigorates-israel-gulf-diplomacy)

### **TOPICS**

[Energy & Economics \(/policy-analysis/energy-economics\)](/policy-analysis/energy-economics)

[Gulf & Energy Policy \(/policy-analysis/gulf-energy-policy\)](/policy-analysis/gulf-energy-policy)

### **REGIONS & COUNTRIES**

[Gulf States \(/policy-analysis/gulf-states\)](/policy-analysis/gulf-states)