

Saudi Oil Policy: An Unlikely Weapon to Pressure Iran

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ABOUT THE AUTHORS



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Brief Analysis

Among the policy suggestions for heading off Iran's emergence as a military nuclear power is the notion that Saudi Arabia should use its position -- as the world's largest oil exporter and effective leader of the OPEC oil cartel -- to apply pressure. The kingdom is increasingly concerned that nuclear weapons capability would confer on Iran the status of regional hegemon. But any hope that Saudi Arabia would intervene to stop that possibility, by pumping extra supplies to lower prices and decrease Iran's oil revenues, is probably misplaced.

Background

Historically, Saudi Arabia has claimed that it will not use its leading role in the oil market for political purposes. In a June 2001 interview with the Financial Times, then Crown Prince Abdullah said: "Oil is a strategic commodity upon which the prosperity of the industrial as well as the developing countries depends. Our oil policy is a prudent one, seeking a balance between the interests of producers and consumers. It serves no purpose to speak about oil outside this framework."

Yet, most famously in 1973 during the Yom Kippur war, Saudi Arabia led other Arab oil producers in cutbacks of oil supplies to the United States, only to later cut all shipments of oil. At the time, Secretary of State Henry Kissinger described as "political blackmail" this use of oil as a weapon to diminish U.S. support for Israel, which was recoiling under Egyptian and Syrian attack. Again, in August 2001, just a few weeks after the Financial Times interview, Saudi officials, preparing for a meeting between Abdullah and then president George W. Bush, reportedly made it clear that unless U.S. support for Israel changed, oil supplies could be interfered with.

Saudi Policy Priorities

Despite fear of Iranian plans and prejudice toward Iran's Shiite variant of Islam, Saudi foreign policy instinctively veers away from open hostility toward Iran. Traditionally, its policy is based on three legs: Islam, oil, and the Arab world. Riyadh sees itself as the leader of each and is determined to preserve that role. Of the three areas, however, the kingdom's leadership of the Islamic world is probably the greatest concern.

In matters of Islam, both Saudi Arabia and Iran maintain a veneer of politeness despite the historical antagonisms between Sunnis and Shiites. This antithesis extends to hardline Saudi Wahhabis, who do not regard Shiites as proper Muslims, but as worthy of execution. A few Iranian religious leaders have suggested that the Saudi royal family is not a suitable custodian of Mecca and Medina, the two principal Islamic holy places. The result is a standoff, with possible action being conducted via a proxy war in neighboring Iraq between the majority Shiites and the smaller Sunni community.

As the de facto leader of OPEC, Riyadh is unlikely to pick a fight with another member. The cartel continued to function almost normally during the 1980-88 Iran-Iraq war, with oil ministers from both countries attending OPEC meetings even though they were targeting each other's oil installations.

The Arab world has been ambivalent toward Iran for much of the time since the 1979 Islamic revolution overthrew the Shah. For many years, Iran's only friend was Syria, which became an ally in 1982 as a way of disadvantaging its rival, Iraq. With the overthrow of Saddam Hussein and the installation of a majority Shiite government in Baghdad, Iraq has also become an ally. But on the other side of the ledger, Arab hostility toward Iran has grown in recent months, with both Egypt and distant Morocco angrily accusing Tehran of subversion. Saudi leadership of the Arab world is less asserted than the roles it claims in OPEC and Islam. The Arab League regularly postures on Iran's 1971 occupation of three small Persian Gulf islands claimed by the United Arab Emirates, but saves most of its energies for condemnation of Israel.

Critical Signals

A clear sign of Saudi disapproval of U.S. thinking on energy (although Iran was not mentioned) was a September 2009 article in Foreign Policy by former Saudi ambassador to the United States and intelligence chief Prince Turki al-Faisal, which ridiculed White House calls for energy independence, likening them to baby-kissing during elections. Prince Turki followed this up with a September 13 editorial in the New York Times that called for an Israeli withdrawal from all Arab land occupied in 1967 as a condition for any reciprocal gestures by the kingdom. The piece essentially confirmed the reports that King Abdullah had rejected President Barack Obama's requests during his June visit to Riyadh for conciliatory and public gestures by Arab states toward Israel, such as allowing civilian overflights and tourist visas.

Although Turki al-Faisal has had a checkered career -- he was reportedly sacked as intelligence chief by Abdullah and then sidelined in favor of longtime envoy Prince Bandar bin Sultan after taking up residence in Washington -- he remains one of the royal family's most articulate spokesmen. Having served as the first Saudi representative after the establishment of a backchannel with Israel's Mossad intelligence service, he knows the issues well. Although Turki might be speaking for one of the royal factions fighting for succession in the kingdom, it is more likely that he is giving public voice to the king's views.

Saudi Participation at the G-20 Summit

Any chance that President Obama will successfully press Saudi Arabia about Iran during next week's meetings at the UN or at the G-20 summit has been reduced by King Abdullah's likely absence. Instead, on Wednesday, September 23 -- also the Saudi national day -- King Abdullah will be inaugurating the new King Abdullah University of Science and Technology, a pet educational project. In his absence, the kingdom will probably be represented at the G-20 summit by Foreign Minister Prince Saud al-Faisal (Turki's brother), an intelligent but equally inflexible advocate.

Meanwhile, Saudi Arabia appears happy with the current international oil price, which remains around \$70 per barrel for the widely traded Brent crude. At this price, the kingdom's cash flow is regarded by analysts as "comfortable," as it probably is -- unfortunately, in the eyes of U.S. policymakers -- for Iran as well. Rather than Iran, the broader Saudi concern appears to be the risk that any sharp price increase could endanger world economic recovery and the longer-term Saudi role in the energy markets. Saudi oil minister Ali al-Naimi, speaking after an OPEC ministerial meeting in Vienna on September 10, said: "We are happy where [the oil price] is and it is going to be there for awhile."

Other Saudi concerns

One policy idea circulating in Washington is that Saudi Arabia could help secure UN Security Council support for action on Iran by leveraging its growing energy relationship with China. The kingdom is China's biggest supplier of oil, with Iran a close second. In addition, Saudi Aramco operates joint-venture oil refineries in China. The argument is that Saudi Arabia could offer China better commercial opportunities in the kingdom than Iran has offered China (Beijing is encouraging its state-owned oil companies to invest abroad as part of an energy security strategy).

The possibility of this happening, however, is very unlikely. Saudi Aramco jealously preserves its monopoly on oil exploration and production. And although the opportunities in the natural gas sector -- where the intention is to increase supplies for the Saudi domestic market -- are real, the artificially low set price may render exploitation uneconomical. Some diplomatic challenges are also on the horizon: Saudi Arabia has been irritated by Beijing's questioning of the costs associated with the jointly owned refineries in China, while the area in the kingdom where Riyadh has allowed China to explore for gas is geologically complex and unpromising.

Conclusion

Although Saudi Arabia's dominance in the world oil market -- backed by its current spare production capacity -- gives it ample potential to threaten, if not actually squeeze, Iran, its past record makes this unlikely. Thus far, pressure has only prompted Saudi resentment. But, failing a breakthrough in other aspects of the Iranian nuclear challenge, the Obama administration needs to rework its proposals to press Saudi Arabia for action on Iran.

Simon Henderson is the Baker fellow and director of the [Gulf and Energy Policy Program](http://www.washingtoninstitute.org/templateI02.php?SID=23&newActiveSubNav=Gulf%20and%20Energy%20Policy%20Program&activeSubNavLink=templateI02.php%3F3FSID%3D23&newActiveNav=researchPrograms) (<http://www.washingtoninstitute.org/templateI02.php?SID=23&newActiveSubNav=Gulf%20and%20Energy%20Policy%20Program&activeSubNavLink=templateI02.php%3F3FSID%3D23&newActiveNav=researchPrograms>) at the Washington Institute. ❖

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