

# Saudi Arabia and Oil: Coping with the Challenge of Osama bin Laden

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## ABOUT THE AUTHORS



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## Brief Analysis

On January 26, 2005, Riyadh announced that Prince Nawaf, head of the Saudi General Intelligence Department, had been relieved of his post. The move was not entirely unexpected—the prince has reportedly never fully recovered from a brain hemorrhage he suffered at the 2002 Arab Summit in Beirut. Yet, Riyadh failed to announce an immediate replacement for him. Consequently, a crucial part of the Saudi security apparatus is leaderless at a crucial time—Osama bin Laden and al-Qaeda have not only intensified their antigovernment efforts, but also taken aim at a new target in recent months: the kingdom's oil industry.

## A New Challenge

In December 2004, al-Qaeda attacked both the U.S. consulate in Jeddah and the Saudi interior ministry in Riyadh. At the same time, bin Laden shocked financial markets around the world with his internet pronouncement that oil should be priced at a minimum of \$100 per barrel. (The prevailing price, considered abnormally high, is between \$45 and \$50.) The statement was an ugly reminder of the danger posed by the Saudi-born terrorist leader and the central role of Saudi Arabia in the world oil market.

Although the most persistent aspects of bin Laden's statements are that non-Muslims should be expelled from “the land of the two holy places [Mecca and Medina]” (i.e., the Arabian peninsula) and that the House of Saud should be overthrown, an underlying, often understated, theme is that the oil riches of the region are being stolen by the non-Muslim West. Leaving aside the direct threat that bin Laden's followers pose to the government in Riyadh, the latter allegation is a conundrum for the Saudi authorities, who need the revenues from oil sales to fund development in the kingdom while maintaining good relations with customers across the world. Despite current high prices, Saudi officials like to depict their oil policy as being, in the words of Oil Minister Ali Naimi, “market stability” and “reasonable prices.”

In 2004, al-Qaeda began to act on its rhetoric by deliberately targeting oil-related facilities in Saudi Arabia for the first time. Seven people were killed in a May attack at Yanbu on the Red Sea coast, and thirty died in a similar outrage at al-Khobar on the Persian Gulf coast later the same month. Although production and export facilities are reportedly

well guarded, the attacks have accelerated the steady withdrawal of Western expatriates from the kingdom, which may be having an impact on technical expertise in the industry. No U.S. airline currently flies to the kingdom, and British Airways is set to withdraw its own services to both Jeddah and Riyadh, citing commercial reasons.

As early as 1996, in one of his first public pronouncements (entitled "Declaration of War against the Americans Occupying the Land of the Two Holy Places"), bin Laden claimed that "[oil] production is restricted or expanded and prices are fixed to suit the American economy." The first part of this statement is at least partially true: Saudi Arabia acts a swing producer in the international oil market, cutting or expanding production as needed in an attempt to keep prices relatively stable, which benefits the U.S. economy. Such actions benefit Saudi Arabia as well, however, stabilizing its oil revenue and making oil a more economically viable energy source. This in turn encourages the continued widespread use of oil, to the benefit of the kingdom as the world's largest producer. Saudi Arabia is able to play the swing producer role because, unlike other oil exporters, it deliberately keeps a significant amount of spare capacity.

Last month's statement by bin Laden was unusually long, focusing much of its criticism on Saudi Arabia in addition to its anti-American rhetoric. He repeated his frequent refrain that "the enemy" (the United States) wants to "control our land [in order to] steal our oil." Soon thereafter, the Saudi wing of al-Qaeda issued its own internet statement calling for all mujahedin to "target the oil supplies that do not serve the Islamic nation but the enemies of this nation."

#### Riyadh's Response

The official Saudi preference for reacting to such threats is to do so only obliquely. The Saudi authorities claim that the oilfields are well protected-the state oil company Saudi Aramco employs what amounts to its own private army, backed by the paramilitary Saudi National Guard commanded by the de facto head of state, Crown Prince Abdullah. Nevertheless, concern about Riyadh's ability to handle al-Qaeda seems likely to persist. In December, Abdullah spoke of countering the threat of "deviants" (the government's term for al-Qaeda terrorists) for as long as necessary, whether that be "twenty, thirty, or fifty years." Yet, the two car bombs that went off outside the interior ministry in Riyadh in late December were aimed at the very agency charged with countering al-Qaeda. Although the attackers were reportedly killed in subsequent clashes, they had reportedly been targeting a senior official-and appeared to have enough inside information to nearly succeed.

#### The Saudi Oil Role

A week after bin Laden's December statement, the Saudi oil minister announced that the kingdom's reserves were probably significantly larger-by 200 billion barrels-than the currently claimed figure of 261 billion barrels. The declaration served as a bid to reinforce Saudi Arabia's image as the world's indispensable oil producer-and to counter persistent arguments against that indispensability voiced by some Western experts.

The announcement did in fact drive home the kingdom's central role in the world oil market. Whenever potential problems seem to emerge in Saudi Arabia, the markets get nervous. Oil supply is tight even under normal circumstances, but the international price has remained high due to a built-in risk premium (estimated to be at least \$10 per barrel), partly because of concern about Saudi Arabia but also because of unrest in Iraq and labor problems in Nigeria, two other key producers. Any disruption in Saudi oil supplies would seriously affect the global economy.

Within the next twenty to thirty years, alternative technologies might substantially reduce the role of oil in the world economy. In the short term, however, the global community is perilously vulnerable to any drastic changes in Saudi oil policy (e.g., if the kingdom is no longer willing or able to play its current role). Hence, bin Laden's threats should serve as a wake-up call to policymakers, spurring them to institute mechanisms now that reduce Saudi Arabia's pivotal and threatened role (e.g., increasing stockpiles, investing in gasoline alternatives, improving efficiency).

Simon Henderson is a London-based associate of The Washington Institute and author of the 2003 Institute Policy Paper [The New Pillar: Conservative Arab Gulf States and U.S. Strategy](http://www.washingtoninstitute.org/templateC04.php?CID=33) (<http://www.washingtoninstitute.org/templateC04.php?CID=33>). ❖

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