The oil war

The Saudi dynasty, a symbol of stability, is playing regional and international politics trusting in the endurance of Arab Sunni Islam

by Marco Fosci

On 24 January, the White House announced that Barack Obama would cut his trip to India short to fly to Riyadh and offer his condolences to the new Saudi ruler, King Salman, for the death of his predecessor King Abdullah, who passed away the day before at the age of 91.

The sudden change in the US president's travel plans did not go unnoticed. Many commentators viewed it as a natural consequence of Saudi Arabia's expanded influence in the Middle East following the Arab Spring.

In fact, while popular revolts sent heads of state rolling in Tunisia, Egypt, Libya and Yemen, and Syria entered an ongoing civil war, Riyadh was surprisingly unaffected by the protest movements. It was even credited with being an important mediator in its neighbours' internal conflicts.



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The second largest Arab nation by area, after Algeria, Saudi Arabia is the cradle of Sunni Islam and home to the sacred sites of Medina and Mecca and where Salafis (the more conservative Sunnis) wield great influence over the country's Sharia-based legal system.

But Saudi Arabia is also the head of the Organization of the Petroleum Exporting Countries (OPEC), and in 2013, according to World Bank data, had foreign currency reserves of nearly $738 billion (over €700bn). Under the reign of the deceased king it had set up a powerful network of diplomatic ties, the feather in its cap being its relationship with the United States.

Although he ascended to the throne in 2005, Abdullah had been acting as de facto king since 1995. His reign was marked by investments in education, infrastructure and defence, as well as small social improvements for women – who are still banned from driving but since 2013 have been granted the right to vote in municipal elections.

Aware of his precarious health, King Abdullah had convened the Allegiance Council, the body responsible for selecting future Saudi kings, to plan his succession, designating his half-brothers – former Minister of Defence Salman and former head of intelligence Muqrin – as Crown Prince and deputy.

After reshuffling his cabinet, 79-year-old King Salman's first official act was to distribute a bonus equal to two months salary to all government employees, soldiers, pensioners and students. In a tweet he asked Saudis "not forget me in your prayers".

At first glance, the measure may seem like a bit of local colour, but according to estimates revealed by investment banker John Sfakianakis, speaking to *The New York Times*, it will cost ▶

Saudi Arabia more than $32 billion (€30bn). To put the move into perspective, a similar bonus was last handed out to Saudis by King Abdullah during the 'hottest' week of the Arab Spring.

In his first speech as king, Salman said: "We will continue adhering to the correct policies which Saudi Arabia has followed since its establishment". He added: "The Arab and the Islamic nations are in dire need of solidarity and cohesion".

The statements may seem cryptic, yet they do convey a sense of a foreign policy aimed at suppressing dangerous hotbeds of revolt and keeping Arabs and Sunnis united against the influence of the main rivals for regional power: i.e., the 'secular' Ottomans of Turkey and especially the Shiite Persians in Iran. With the United States gradually pulling out of the Middle East, all efforts to this end have become much more complicated than before.

Saudi Arabia's clashes with Turkey originate in Egypt, where Riyadh finances Abdel Fattah al-Sisi's government and Ankara supports the deposed President Mohamed Morsi, and Libya, where the two nations back the UN-recognised government in Tobruk on the one hand, and the Tripoli-based government sustained by the Muslim Brotherhood, on the other.

Then there's the jostling with Iran over Bahrain and Yemen, as well as Saudi Arabia's limited participation in the military coalition against the Islamic State – with its readiness for joint air strikes on Syria but very cautious approach in Iraq. Last but not least, the Saudis have also made use of the greatest leverage asset they have – oil – of which they are the world's largest exporters.

Last December, despite the dip in global demand and a more than 40% drop in the price of crude oil from June's peak prices, speaking in the name of OPEC, Saudi Oil Minister Ali al-Naimi announced that no cuts in production should be expected.





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REUTERS/ CONTRASTO/JIM BOURG

American President Barack Obama in Saudi Arabia to meet King Salman and offer his condolences for the death of his predecessor Abdullah.

The grave of King Abdullah.

Saudi Arabian King Abdullah, who came to the throne in 2005, died of pneumonia last January.

His statement accelerated the price drop, and by mid-January it was the lowest it has been in six years with Brent crude oil selling for $48 (€45.50) a barrel. The move caught analysts by surprise, none of them believing the Saudis would voluntarily back a price reduction that would invariably damage the kingdom's coffers.

Yet two considerations soon came to mind to justify this behaviour. First of all, with its massive foreign currency reserves, Saudi Arabia won't feel the drop for years and, secondly, lowered prices would weigh more heavily upon producers with lower profit margins and in some cases scuttle their operations.

According to economists, this was a market weapon fired at shale oil, which has rendered the United States 'energetically' independent. In February, the former president of US Federal Reserve, Alan Greenspan, even wrote in the *Financial Times*: "We are about to find out whether shale producers, with their backs to the wall, can keep oil investment innovative and profitable".

If this was the Saudis' intent, it seems to have backfired. The International Energy Agency has predicted that demand will start growing again in the third and fourth quarters of 2015. In the meantime, Brent crude oil has climbed back to $60 (€57) a barrel and prices seem to have steadied. While this threshold may be painful for some companies, it doesn't seem prohibitive for shale oil producers.

It's the other players in the game who are feeling the pinch, such as Russia, which is not in Riyadh's good books given Vladimir Putin's support of Syrian President Bashar al-Assad's government and his relations with Tehran and Ankara. Today, Moscow is having to shoulder the burden of European sanctions and the rouble is in free fall largely due to the drop in energy prices.

Another victim is Hassan Rohani: Iran's oil and gas production has already been heavily downsized due to the Western embargo. If we add Nicolas Maduro's government in Venezuela, whose crude oil reserves are greater than Saudi Arabia's but are more costly to extract, it turns out that all the nations on this list have thorny relations with the United States.

Perhaps then, on closer inspection, Obama's abrupt visit to Riyadh was not simply about presenting his condolences for the passing of a man who played a key role in the Middle East but, rather, a self-interested welcome to a valuable ally who has proven economically invaluable on the world stage. ■

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