Iran, Saudi Oil Relationship: Friendship or Rivalry

By Seyed GholamHosein Hassantash*

Saudi Arabian Oil History

In the 1970s, about 40 years after its foundation as a country, Saudi Arabia became a key world player in political and economic developments. Although it joined the oil producers' club towards the end of 1930s, the climax of Saudi Arabia's global status concurred with the U.S. maxing out its oil production in 1970. From then on, dependence of the U.S. on the import of crude oil kept rising.

As the world demand for oil grew along with the rise of its import by the U.S., Saudi Arabia rose to be one the few suppliers that could satisfy the global unending appetite for oil. Using this opportunity, Saudi Arabia transformed its status from a major oil producer of about 2.5 million barrel per day (mln bpd) to a super producer in 1974, capable of producing over 8.5 mln bpd.

Following the first and second oil shocks of 1970s, industrial countries adapted a series of policies that resulted in reduced demand for OPEC oil as of the early 1980s. In response to that, and to sustain the price of oil, OPEC members adapted the policy of output reduction. It was always Saudi Arabia that reduced its output the most, and as a result, Saudi's output of over 10.2 mln bpd in 1980 was reduced to a mere 3.8 mln bpd in 1985. Subsequently, Saudi Arabia turned into the main storage of *excess production capacity*, which provided the West with the needed assurance and the U.S. with maneuverability, because it could at will put this capacity to use and supply the market with millions of barrels of crude oil.

The value of Saudi's excess production capacity was demonstrated to the U.S. at different junctures. For instance, it was used in 1986 to decrease the price of oil when the U.S. wanted to exert pressure on Iran to end the war with Iraq, to put pressure on the Soviet Union's oil dependent economy so as to facilitate its downfall, and also to limit Qaddafi's oil revenues that were used to feed his so called "anti-imperialist" freedom movements. Such an action was possible only with the help of the Saudi's excess production capacity. Using the excuse of defending "market share" instead of a policy of defending the "oil price", Saudi Arabia suddenly raised its oil production, flooded the market and caused the oil price to plummet.

Again it was with the help of Saudi's excess production capacity that the Persian Gulf War of 1991-1992 did not cause a big oil shock. Iraq's invasion of Kuwait and the U.S. military offensive to liberate it, and the subsequent burning of the oil wells of Kuwait had deprived the global oil market of the outputs of two major suppliers for a relatively long period of time. That is when Saudi's oil came in to make up for the loss of oil of both. Since then, Saudi Arabia has repeatedly intervened in the oil market in favor of the U.S. and its industrial allies, both physically and psychologically.

The aerial attacks by the West on Libya to help its revolutionary forces topple Qaddafi's regime in the beginning of the Arab Spring resulted in the exit of Libyan oil from the market. Escalation of sanctions against Iran led to the boycotting of its oil by the West. If it was not for the existence of Saudi Arabia's excess production capacity, neither of the cases would be possible.

Why Saudi's Star is in Decline?

Notwithstanding what went above, the following two factors have caused Saudi Arabia's lucky star to be in decline:

First, *Twilight in the Desert: The Coming Saudi Oil Shock and the World Economy*, written by Mathew Simmons and published in June 2005, put an end to the myth of endless Saudi oil reserves. Based on hundreds of scientific papers plus his own independent surveys, Simmons showed that, first, the estimated remaining oil reserves of Saudi Arabia and the rate of recovery of its oil fields are hugely exaggerated. Second, that over 90% of Saudi oil is produced solely by seven old oilfields, which are in the descending curve of their lifespan and continuation of production from them has become increasingly difficult. Later on, some documents produced by Wikileaks also confirmed the veracity of the claims in this book.

Making up for the natural decline in the production of the major and main oilfields of Saudi Arabia requires huge investments in the fields as well as in the newly discovered smaller ones, which are in no way comparable to the old fields.

Before the publication of *Twilight in the Desert*, the annual forecasts of both the International Energy Agency (IEA) and the U.S. Energy Information Administration (EIA) anticipated Saudi's production to reach as high as 24 mln bpd by 2030. After the book was published and facts came to light, the predictions

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dropped to 12-13 mln bpd. The materialization of even this much is seriously doubted.

Besides Simmons, Colin Campbell, Samsaam Bakhtiyari and Mamdouh Salameh have also examined the state of Saudi Arabia's oil reserves and have come up with figures ranging from 90 to 145 bln bbl, which are very different from the official statistics of that country. On the other hand, the domestic consumption of Saudi Arabia is increasing rapidly and reached almost 3 mln bpd in 2012. This trend will continue and subsequently reduce the exporting power of Saudi Arabia.

Second, in recent years, production of oil, and especially natural gas, out of unconventional hydrocarbon sources such as oil shale and gas shale in the United States have reduced dependence on the import of oil and gas. The shared energy strategy of both the Democratic and Republican parties of the U.S. is the country's self-sufficiency at the continental level and minimization of dependency on sources out of the continent.

Dependence of America on oil import from the Middle East is falling, and it will be a gas exporter by 2015. One probable scenario is that once the U.S. reduces and later cuts off its dependence on Persian Gulf oil, it will be less interested in the region and will limit its presence in it. Another scenario has the opposite view and holds that reduced dependence on the Persian Gulf oil can, in fact, boost America's maneuverability in the region. After all, dominance over oil rich regions of the world and control of the waterways and corridors of energy transport have always been the power tools and leverages of supremacy of the U.S. over its economic rivals. That means, once the U.S. is no longer in need of resources from the region, its maneuvering power to put pressure on its rivals who are in need of the resources will increase, and any insecurity in the region will only threaten the interests of its rivals.

During the so called Arab Spring developments, America did not allow the breeze of that Spring to cross the boarders of Saudi Arabia. Even the ruling regime in Bahrain owes the continuation of its rule to the help of Saudi Arabia. If there was no concern that success of the opposition in Bahrain would embolden Shiites in the oil rich Eastern regions of Saudi Arabia, then political developments in Bahrain could have had a different outcome, and Saudi Arabia would not have been allowed to intervene in the domestic affairs of that country.

Obviously, as long as Saudi's oil is indispensable in the world market and the U.S. is in need of that market, America will not take the chance of allowing the Arab Spring to get near Saudi Arabia's boarders and this unjustified contradiction in the foreign policy of the U.S. will continue. However, if the U.S. is free from the need of oil and gas from the region, the political and power scene in the Persian Gulf countries may undergo change. Then, it is not clear how dedicated the U.S. would remain to its regional ally (Saudi Arabia), or conversely, how prepared would the U.S. be to compromise this chess pawn to control the economic growth of its important rivals like China.

Ground for Expansion of Iran, Saudi Oil Relationship

The foregoing could pave the way for the enhancement of the Iran/Saudi relationship. Sincere improvement of the relationship with Iran could boost both the level of regional and internal security of Saudi Arabia, and will also neutralize chances of the creation of insecurity by extra-regional powers. Besides, if Saudi Arabia comes to comprehend the new and ongoing developments, the stage will be prepared for planning common energy and oil policies between the two countries. This will help boost OPEC solidarity as well. If a strategic accord is reached between the two, then agreeing on smaller issues like selecting a Secretary General for OPEC will be much easier.

Under the prevailing circumstances, an effort to improve the relationship with Saudi Arabia by the newly elected President of Iran would be a smart move. Within the prospect of the above commentary, the direction of competition and friendships can change as well.

Apart from border disputes between Qatar and Saudi Arabia, the two neighbors have other clashes too. Some Wikileaks documents have revealed that the officials of these two countries have deep seated conflicts. Qatar, as a tiny country with a small population that was once regarded as the weakest link in the Persian Gulf Cooperation Council (PGCC), has now emerged as an actor and player in regional and global developments. Qatar owes all this maneuverability to the enormous revenues it has earned from the oil and gas fields it shares with Iran, who has problem tapping its share from the common fields. This role of Qatar is not all that acceptable to Saudi Arabia, which has always been the main pedestal of PGCC.

Besides, Iran and Saudi Arabia are not happy with the fast and unrelenting development of Iraq's oil industry, though for different reasons. Most major oilfields of Iraq are the ones that are on the border with Iran and naturally common to both countries, and much like Qatar, Iraq is taking advantage of the problems Iran has in developing its share of the fields. On the other hand, Iraq is trying to use the

Basra-Aqaba oil pipeline, the contract for the construction of which was signed recently, to transfer parts of its oil to the Red Sea. This is tantamount to intensifying competition with Saudi Arabia, the only oil producer of the Persian Gulf that could until now supply parts of its oil beyond the Strait of Hormuz and in the Red Sea.

The Saudis must recognize that although they could benefit in the short term from cooperating with the West in implementing oil sanctions against Iran by going along with the oil policies of the U.S. and distancing itself from the biggest regional power, is not in its interests either in the medium or long term.

Clearly, extra territorial powers will care about the security and interests of the region only up to the frontier of their own interests.

IAEE/Affiliate Master Calendar of Events

(Note: All conferences are presented in English unless otherwise noted)

Date	Event, Event Title and Language	Location	Supporting Organization(s)	Contact
2014				
February 17-18	7th NAEE/IAEE International Conference *Energy Access and Sustainable Economic Development for Africa*	Abuja, Nigeria	NAEE	Adeola Adenikinju *adenikinjuadeola@gmail.com*
June 15-18	37th IAEE International Conference *Energy and the Economy*	New York City, USA	USAEE/IAEE	USAEE Headquarters *usaee@usaee.org*
September 19-21	4th IAEE Asian Conference *Economic Growth and Energy Security: Competition and Cooperation*	Beijing, China	CAS/IAEE	Ying Fan *yfan@casipm.ac.cn*
October 28-31	14th IAEE European Conference *Sustainable Energy Policy Strategies For Europe*	Rome, Italy	AIEE	Andrea Bollino *bollino@unipg.it*
2015				
May 24-27	38th IAEE International Conference *Economic, Environmental, Technological and Security Challenges for Energy*	Antalya, Turkey	TRAEE/IAEE	Gurkan Kumbaroglu *gurkank@boun.edu.tr*
October 25-28	33rd USAEE/IAEE North American Conference *The New Energy Landscape – Balancing Natural Resources Amid Innovation and Environmental Regulation*	Pittsburgh, PA, USA	IAEE/USAEE	David Williams *usaee@usaee.org*
2016				
June 19-22	39th IAEE International Conference *Energy: Expectations and Uncertainty Challenges for Analysis, Decisions and Policy*	Bergen, Norway	NAEE	Olva Bergland *olvar.bergland@umb.no*