Challenges of Post-Global Shifts in Energy Production: U.S. – Saudi Relations in 2020

Hamad Althunayyan
University of Maryland – College Park

Under the direction of
Prof. Nazli Choucri
Department of Political Science
Massachusetts Institute of Technology

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1. Abstract
This paper aims to assess to what extent will the global shifts in energy production, mainly oil, alter the strategic relationship between the U.S. and Saudi Arabia. Major events shaping the relations between the U.S. and Saudi Arabia, in terms of oil politics and security collaboration, were probed in depth to assess whether they will still be relevant post-the global shifts in energy production. A special focus was given to cyber-security cooperation between the two countries to point its significance today and beyond. The global shifts in Energy Production will not significantly alter the degree of security commitment of U.S. toward Saudi Arabia, however, it could possibly change the relationship dynamics.
2. Introduction

This research examines the impact of the current rise in U.S. oil and gas production on the relations between the U.S. and Saudi Arabia. By 2020, the U.S. is expected to be the largest global oil producer. The International Energy Agency 2012 report suspects that North America will become the largest net exporter of oil by 2030.\(^1\) The conventional wisdom states that oil is a commodity that pours in the same market with its price interconnected globally. However, this does not provide any evidence that the strategic partnership based on “security for energy” between Riyadh and the U.S. will obliged to status quo in next decades.

The Gulf Cooperation Council (GCC) (includes the Saudi Kingdom, United Arab Emirates, Kuwait, Qatar, Oman and Bahrain) contains over half of the global oil stocks and more than a third of its natural gas. Professor Noam Chomsky noted that “one of President Roosevelt’s leading advisors said that who controls this [oil-rich Gulf] region will have substantial control of the world.”\(^2\) President Eisenhower called it “the strategically most important part of the world.” The State Department referred to it as “a stupendous source of strategic power….one of the greatest material prices in world’s history”.\(^3\) These powerful statements show the strategic importance of gulf region to American policy makers over the past half century.

As the cold war started, consecutive U.S. administrations were determined to block the Soviet Union from controlling the region’s oil.\(^4\) This policy developed further denying access to any hostile regional powers. It is worthy to note that the hydrocarbons in the Gulf are a strategic asset to the U.S. not only for domestic consumption, but also to decide who can have access to it.

The independent variable is the global shifts in energy production, specifically oil. While the U.S. is importing 20 percent of its oil supplies from Saudi Arabia, the percentage is expected to decrease significantly in the next 10 years when the U.S. becomes the largest producer of oil.\(^5\) This could also mean that most of the American oil will be tunneled to its European allies. This raises a question mark of where the Saudi oil will be channeled to? Perhaps China will become the largest consumer of Gulf oil as its markets are demanding vast amounts of energy. This could entail a re-alignment in Saudi Arabia’s relationship with the U.S. vis-a-vis China. For the purpose of this study, I will define the global shifts in Energy production as a significant reduction in U.S. oil imports from Saudi Arabia and a steep increase in U.S. oil production.

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\(^3\) Ibid.
As for the dependent variables, I will be examining three broad elements: (1) oil politics (mainly the use of oil as a military weapon) and (2) security cooperation (including military, terrorism, intelligence, and cyberwar). The question is whether these three factors in the strategic relationship between the U.S. and Saudi kingdom would be altered in light of the global shifts in oil production. Would they still be relevant to maintain the U.S. interest in the region? If yes, then how? The main assumption is that all types of cooperation between the U.S. administration and Saudi Arabia is built around the oil relationship.

Therefore, we will have two hypotheses:

1- If there were global shifts in energy production, then the oil politics between the U.S. and Saudi Arabia will still be relevant.

2- If there were global shifts in energy production, then the security cooperation between the U.S. and Saudi Arabia will remain relevant.

Hence, if the hypotheses below are proven to be correct, then strategic relationship between Saudi Arabia and the U.S. will maintain status quo. If not, then the global shifts of energy production will have a significant impact on the bi-lateral relationship between the two countries. In this paper, I will examine micro historical precedents that shaped their relations in terms of oil politics and security apparatus. I will also discuss the importance of integrating cyber-security cooperation between the two, especially in an era where cyber and physical spheres are converging.
3. Oil Politics: Energy for Security Doctrine

The U.S. interest in Saudi oil is not merely supplying its domestic market. Most importantly, it aims for stable flow of oil to its European NATO allies and relatively low oil prices. The centrality of Saudi oil to America’s national security led to development of the ‘Energy for Security” doctrine. One of the most important lessons from World War II was that those who have more oil [energy] supplies will be victorious. According to Flynt and Hillary-Mann:

“From World War II on, the United States has seen itself as having vital interests in the Middle East. Even as the war raged, American policy makers were angling for the United States to displace Britain as the dominant power in the Persian Gulf. In particular, the Roosevelt administration wanted American energy companies, which already had an exclusive concession in Saudi Arabia, to secure another one in Iran, where the Anglo-Iranian Oil Company (whose majority shareholder was the British government) held a monopoly position. Since then, Iran has been a focus for Washington- as a critical strategic partner and, after the Islamic Republic’s creation, as the most persistent obstacle to America’s hegemonic aspirations in the…Gulf.”

Saudi Arabia is the only U.S. ally with an 85 percent spare oil production with 2.5 million barrels per day, as former Saudi Security Intelligence Prince Turki Alfaisal notes. This is largely to the increase in their oil production capacity from 10 million barrels per day to 12 million barrels per day with their intention to reach 15 million barrels per day by 2020. The Saudis have always understood that oil is not only a source of revenue, but it is a survival tool in their geopolitical strategy. Their National Security doctrine can be traced back in history.

On October 16th 1973, “Arab oil ministers meeting in Kuwait agreed to monthly 5 percent cuts in production until Israel evacuated the territories it had seized in 1967.” Later on, all Arab gulf countries except Oman joined the Kingdom of Saudi Arabia in implementing a total oil embargo on the United States on October 19th that lasted for roughly 5 months. This was the first time that oil was used as an economic weapon. The consequences on global economy were significant. The oil embargo led to an 18 percent decrease in the minimum amount of fuel needed for domestic use in United States. Also unemployment rate increased significantly and “what the producing countries appear to have done is to have raised the price of running a factory, heating a home, and powering a car around the world by an unprecedented degree.” The decrease in oil output evidently led to very high oil prices in 1974 with the “world’s oil bill for 1974 would be $100 billion. The United States alone faced an increase of $16 billion over

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6 Ibid, 870.
9 Ibid, 438.
the previous year…The quadrupling of the price of this key resource [oil] in such a short time has created widespread distortions and financial problems that are intensifying week by week. These consequences might explain why the consecutive U.S. administration felt the need to liberate the U.S. economy from foreign oil. However, this objective is far from reach even with the new coming oil shale boom. And like before, Saudi Arabia is still – and will be – relevant in the American national security calculus.

After the oil embargo ended, the Twin Pillars strategy implemented by Nixon administration gradually shifted favorably back toward the Saudis. The Twin Pillars was Nixon’s policy in the 1970’s to strengthen two of its regional allies, Iran and Saudi Arabia, to combat soviet influence without direct U.S. military presence in the region due to their involvement in the Vietnam War. The Shah of Iran wanted to increase oil price to finance his country’s economic and military plans, while major western economies have not yet recovered from the oil price shock. President Nixon appeals to the Shah to reduce the price failed. Nixon’s policy toward the energy crisis proved ineffective, and almost triggered a major financial crisis for Ford administration, which was forced to align with Saudi Arabia to break Iran’s control over OPEC.

The dispute over oil pricing between Iran and Saudi Arabia can be clearly seen in 1970s. To drive oil prices up, the Iranians were constantly pressuring its Arab gulf neighbors to reduce their production. This was a key policy for the Shah to “transform Iran into a military and economic powerhouse.” Official documents indicate that the U.S. played a major role in changing oil prices, and putting the two states against each other in that matter.

Motivated by oil politics, the U.S. focus started to shift toward Saudi Arabia to balance oil prices. Cooper says that:

“The Saudis by contrast [to Iranians], were proving to be much more receptive to overtures from the White House. In early March [1974], Nixon offered Faisal [King of Saudi Arabia] the equivalent of a grand bargain to end the embargo and start a new chapter in U.S. - Saudi relations. In return for resuming oil exports, boosting oil production, and holding firm on prices, the United States was prepared to fulfill the King’s long-cherished goal of sealing a separate military and economic alliance with the United States”

This was the beginning of a new alliance in the Middle East that will ultimately over masks the Twin Pillars Strategy later. There were two main reasons that made Saudi Arabia more strategically important than Iran to United States in terms of oil. First, Saudi Arabia was the only – and still is – “swing oil producer” in OPEC. It can significantly increase the global oil production and, hence, decrease oil prices again. Cooper notes that “the Saudi royal family has

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10 Ibid, 721.
12 Ibid, 41.
13 Ibid, 721.
14 Ibid, 556-57.
always understood that petro-power is about more than creating wealth, developing its economy, and preserving power. Oil is also the Saudis’ primary weapon of national self-defense and the key to their security and survival. Flooding the market is economic warfare on a grand scale, the oil industry’s equivalent of dropping the bomb on a rival.” Still, the Saudi government would have not been able to carry such act without the direct support by the Ford administration. Secondly, the Shah declared that he will not renew the contracts for foreign oil companies, which were producing 92 percent of Iranian oil in 1979. The only way to keep their contracts is to double the oil production capacity, while simultaneously maintaining the selling price. Also it was projected that the Iranian oil reserves will only last for a maximum of two decades. I believe that his decision shocked many western government, who were about to experience a new financial crisis. For the U.S. government, it was time to carefully empower Saudi Arabia to increase its oil production and break OPEC’s price. In June of 1974, “Saudi Arabia’s oil alliance with the United States was sealed….when Prince Fahd Ibn Abdul-Aziz Al-Saud, the most influential of King Faisal’s brothers, led a contingent of officials to Washington to sign a series of economic and military accords”

The 1976 Doha OPEC meeting in December was the first battlefield in this oil war. The Ford administration carried a strong campaign to persuade Saudi Arabia to freeze oil prices in the upcoming meeting. The late Crown Prince Fahd assured the American Ambassador that they “will certainly not approve a price rise this year. He is against any increase in the price of oil. If other OPEC members continue to apply pressure we will agree to talk to them next year…At that point, he asked for [United States government] assistance with Iranians and Venezuelans” With the Iranian Shah not willing to compromise over oil pricing, President Ford had no choice but to support the Saudis. On September 17th 1976, before Doha meeting, President Ford met with Saudi Foreign minister and informed him that:

“I greatly appreciate His Majesty’s [King Khalid] comments about a price increase. Last year [1975] when you were here, we were at the bottom of a recession. We are moving out now, but it is fragile. The OPEC action last summer under your leadership was very far-sighted, but any increase this December or for ’77 would be extremely damaging, not only for the United States, but even more so for our industrial colleagues who are in a much more fragile situation. We plan to discuss this matter with you but also with Iran and Venezuela. It would be disastrous to push the world economy back to the recession of last year. So we hope His Majesty’s views will prevail.”

During the Doha OPEC meeting, the Saudi Oil Minister Zaki AlYamani stated that his country will not accept the 15 percent increase in crude exports by 1977. Saudi Arabia decided

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15 Ibid, 721.
16 Ibid, 327.
17 Ibid, 597.
19 Ibid, 1153.
20 Ibid, 1257.
to increase its oil production to 11.8 million barrels a day from 8.5 million. This was the “most radical intervention in the market ever by an oil producer.”

Another critical event is a meeting between Dick Cheney and Saudi King Abdullah in Riyadh to discuss decreasing the oil price in 2006. Cheney said that the price was too high that it “threatened America’s prosperity and the economies of its trading partners.” Another factor that he mentioned was the White House’s concern over “what the government of Iran would do with its new billions.” He was referring to Iran’s $45 billion oil profit increase in 2006 from $15 billion the year before. Saudi-American consensus on oil intervention, as well as, other factors in Iran prepared the Saudis to take action. It is possible that Cheney’s primary motive behind asking the Saudi assistance is to help the U.S. economy rather than strangling the Iranian one. But it is clear that the U.S. goal was to lower oil prices, and only Saudi Arabia was able to achieve it.

These events of the relations between Saudi Arabia and the United States offer insight on how the oil relation between the two countries was initiated and developed overtime. The Saudi determinism to maintain its strategic position, especially as a swing producer of oil, should not be underestimated. The oil market prices are globally inter-connected, and Saudi Arabia will continue to play a vital role in keeping it stable, accessible, and affordable to U.S. NATO allies. Therefore, the increase in U.S. oil shale production will maintain the convergence of interests with the Saudi Kingdom.

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21 Ibid, 1258.
22 Ibid, 22.
23 Ibid, 23.
4. The Security Relationship between U.S. and Saudi Arabia

To counter the growing Soviet influence in Iraq in 1972, the U.S. objective was to empower two regional allies, Iran and Saudi Arabia. For military establishments in the west, the most dangerous scenario would involve the Soviet army seizing Strait of Hormuz, where all the Gulf oil passes through.24 The U.S. policy encouraged cooperation between the two regional neighbors and supplied them with arms during this period. Describing this policy, a White House official, said “the U.S. is no longer in a position to do anything really helpful…That would be imperial [Direct presence of U.S. army]. We’ll just have to rely on the people who live there and maybe it will go all right.”25 This policy, and especially after the 1979 Iranian revolution and Iraqi invasion of Kuwait in 1990, has changed. The U.S. administration realized that they need to maintain a direct military presence in the Gulf, and to help Saudi Arabia build its military strength. The Saudi military undergone a thorough reform since that time, and it has the fourth largest military budget globally spending 63 billion dollars in 2013.26

As Shibley Telhami mentions, the Saudi alliance is crucial for the U.S. to maintain its military bases in the Gulf States, except Kuwait.27 The U.S. could possibly maintain its Al-Udeid Air Base in Qatar without Saudi approval, however, it could prove worthless without using the Saudi air space. Moreover, the Saudis allowed U.S. military to use their airspace to overthrow Saddam’s regime. The Saudi government even agreed to build a secret drone base in 2009 to eliminate “high value targets” affiliated with Al-Qaeda in Yemen.28 It is worthy to note that Islamic State in Iraq and Sham (ISIS) rise in Iraq constitutes a major threat, as declared by the U.S. and its regional allies, which require their cooperation. In fact, ISIS is the most powerful terrorist organization with approximately a 1.5 billion dollars in its assets.29 Some might argue that the opening in relations between U.S. and Iran can help solve the security problems in the region. However, this is wishful thinking. The U.S. will need Riyadh to balance Tehran like it did in 1974.

25 Cooper, 75.

A closely connected issue to U.S.-Saudi Cooperation is the domain of cybersecurity, which only gained minimal attention recently. While cybersecurity might not have direct link to the recent developments in the relations between two states, it is crucial to maintain their economic and security arrangements. In Cyberpolitics in International Relations, Nazli Choucri argues – and points out a significant shift in the realm of state interaction – that the cyber sphere allowed individuals to interact directly with states, and perhaps alters their behavior.\(^{30}\) Put in other words, a highly tech-savy terrorist could easily penetrate the oil and security facilities in any country. The number of internet users in the Middle East increased from around 3 million users in 2000 to approximately 68.5 million in 2011.\(^{31}\) A country could face a terrorist cyber-attack carried out by an individual, group, or even state-sponsored. The cyber threat will sharply elevate once professionally adopted by U.S. designated terrorist groups, such as Al-Qaeda and/or ISIS.

In fact, a cyber-attack in 2012 targeted 30,000 computers at the Saudi Oil Company, Aramco, to halt production with no success. According to source, “it was one of the most destructive hacker strikes against a single business.”\(^{32}\) Abdallah Al-Saadan, Aramco’s vice president for corporate planning, stated that “the main target in this attack was to stop the flow of oil and gas to local and international markets and thank God they were not able to achieve their goals.”\(^{33}\) Saudi Arabia’s oil infrastructure is not the only target, its security and intelligence apparatus could be at risk.

Cooperation in the cybersecurity venue should be a matter of growing concern, and it could be addressed in collaboration with other Gulf Cooperation Council (GCC) states. The establishment of the GCC Cyber Command for rapid intervention could solve any cyber threat facing the Arabian Peninsula region. This will help prevent any disruption in the global oil market caused by a cyber-attack. Hence, this provides more evidence that the security relationship between Saudi Arabia and the U.S. will still be relevant post-global shifts in energy production.

\(^{31}\) Ibid, 68.
\(^{33}\) Ibid.
6. Conclusion

To the United States, the critical value of oil was not in supplying domestic markets with energy fuel. Instead, it lies in who has access to oil. The lesson taken from World War II is the one with more oil is the winner. The loss of U.S. monopoly over oil jeopardizes the U.S. security in a period of rising ambitious powers. Also the United States influence over Petro-States to increase their oil production made the control of energy prices possible. If the U.S. loses this influence to other countries, such as China or Japan, then this will lessen its international standing with both allies and foes.

While some might argue that the global shifts in energy production will enable the U.S. to exert more pressure on Saudi Arabia in its fight on terror, I think this is inaccurate. Saudi Arabia is a strategic partner in war on terror. After the U.S. Congress threatened Saudi Arabia with sanctions, they became very responsive to U.S. demands and started sharing critical intelligence information. They carried out extensive intelligence and domestic operations to eradicate terror cells in Saudi Arabia. King Abdullah is trying to modernize the country through thousands of educational scholarships for Saudi youth in the United States. The argument that the U.S. will be able to engage more in its war on terror is far from reality. In fact, it will need Saudi Arabia to continue its effort to counter terrorism in the region.

The global shifts in energy production does not mean that the U.S. can or should pull back from the Middle East. However, it might be used as a leverage when bargaining with Saudi Arabia. To remain a great power, the United States must maintain the free flow of Oil from the Arab gulf to its NATO European allies. But this can be achieved in different and less expensive means now. First, the United States can adopt a multi-bilateralism approach with Arab gulf monarchies to share the defense burden with them. A multi-bilateralism involves the U.S. help establishing an effective military and cyber defense arrangements in the GCC region. As the recent GCC security Architecture Senate report suggested, the United States army presence can be significantly reduced, and be spread in a more effective manner. The economic ties with countries in the region is beneficial to the United States. The six Arab gulf countries invests over one trillion dollar in the U.S. economy.

In addition, the current U.S. diplomatic resources in that region are important to maintain influence in that region. The U.S. Commitment to oil flow to international markets must be kept to be the sole super power in the world. Therefore, the U.S. must show evidence that it is committed to the security of Saudi Arabia from external and regional powers. U.S. demands must not exceed the limitations of Saudi Arabia’s internal affairs. Otherwise, they might enter oil-hungry China in the Arabian Peninsula to compete with the United States. This might have other implications beyond the scope of this paper.

This research provides strong evidence that the global shifts in Energy Production will not significantly alter the degree of security commitment of U.S. toward Saudi Arabia, however, it could possibly change its dynamics. There is no evidence that the U.S. will be energy independent (See Table 1). The global shifts in energy production could provide the U.S. with more options in decreasing its defense budget, altering the economic ties, or even allocating its diplomatic resources. Oil politics, security collaboration, and cyber cooperation will all still be relevant in the relations between Saudi Arabia and the U.S. beyond the global shifts in energy production.
### 7. Appendix: Table

Table 1 - Global Shifts in Energy production, 2013 – 2020.

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<td>12,500,000</td>
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8. Acknowledgment

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