Saudi Arabia's Foreign Policy and the Failure of the Doha Oil Negotiations

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A meeting of OPEC (Organization of the Oil-Exporting Countries) and non-OPEC members held on April 17, 2016, in the Qatari capital Doha failed to produce an agreement on freezing their production at the levels of early 2016 in order to boost recent trends of slightly increasing oil prices. Most observers agree that the main actor behind the failure was Saudi Arabia, or more precisely Deputy Crown Prince Mohammad bin Salman, Riyadh's current strongman in the realm of political economics (Klare 2016; Upadhyay 2016). Note that the failure of the Doha price agreement is just the latest incident within a strategy of Saudi Arabia to maintain its production at a high level, thereby contributing to the severe pressure on the price level. After a period comprising late 2012 and early 2013 in which Riyadh significantly curbed its production, Saudi Arabia measurably raised its oil output and kept it close to 10 million barrels per day, sometimes even exceeding this threshold [1]. Due to the sharp drop in oil prices in 2014, plus tough competition in major markets, Saudi Arabia could in no way compensate for lower revenue per exported barrel by production increases (Raval 2016; Scholtens 2016).

The main factors triggering the current fall in oil prices, which is mainly due to declining global demand, are beyond Saudi production decisions. However, in similar situations in previous decades since the 1970s, Saudi Arabia acted as a swing producer and reduced its production when demand diminished or the production of competitors rose. Is the current behavior of Saudi Arabia an indicator that Riyadh is (unwillingly) contributing to terminating the established global energy order (cf. Klare 2016)? With the "oil price revolution" of the 1970s (Schneider 1983), when decisions about production and prices of Middle Eastern oil switched from the Western major oil companies to the governments of North Africa and the Gulf (Tétreault 1985), Saudi Arabia as the actor with the highest proven reserves became a player of global significance. Its behavior as the hegemon of OPEC *and* as a major US ally was crucial in balancing the income needs of the Southern oil exporters and the Northern interest in reliable oil prices. Is Saudi Arabia about to lose this role? Does Saudi Arabia's strategy even bear the risk of it ending as a failed state (cf. Ahmed 2015)? To put the research question less speculatively, we will deal with the following one: Is Saudi Arabia's strategy of refraining from curbing its production in a situation of shrinking market opportunities likely to be self-defeating? Was Saudi Arabia's policy of letting a potential oil producers' agreement in Doha fail irrational? This is, as will be shown, not necessarily the case, as Saudi Arabia, together with other oil producers, is exposed to a prisoner's dilemma – or, in other words, a game in which the players have an incentive to cooperate (i.e. by capping their production as a contribution to reaching an agreement) but also to defect (i.e. by rejecting an agreement or cheating within it). In the following, four arguments discussing Saudi Arabia's (ir)rationality in terms of its recent oil policy will be briefly presented.

Disciplining the OPEC?

As James Alt, Randall Calvert and Brian Humes (1988) show in a plausible manner, Saudi Arabia's policy of flooding the market with oil in 1985/86 was meant to promote cooperation: in the previous years, Riyadh had accepted increasingly low production figures, whereas other members of OPEC (Organization of the Petroleum Exporting Countries) had cheated on their quotas, which the OPEC had introduced in the early 1980s as a response to pressure on oil prices. After having acted the benevolent hegemon for several years, Saudi Arabia decided to use its potential to discipline the members of the organization by drastically increasing its production, thereby gaining back market shares at the expense of other OPEC members. However, the situation thirty years later is dissimilar: then Saudi Arabia produced less than four million barrels per day when it started to glut the market, whereas in the twenty-first century Saudi Arabia has always produced more than double that amount [2]. As the current pressure on market prices is not a result of relatively high production of OPEC members vis-à-vis Saudi Arabia, it is not plausible that Saudi Arabia's current oil policy is inspired by establishing cooperation among oil producers in the long run.

A price war strategy?

If not for the goal of re-establishing cooperation, a Saudi strategy of keeping the oil price low for a certain period could make sense if Riyadh attempted to relegate competitors, particularly the American fracking industry. The rationality of this approach is based on the fact that the production costs of oil exploited by fracking technology exceeds those of Saudi Arabia by several hundred percent (Beck 2014). In other words, due to its control of high economic rents, Saudi Arabia could go for a price war in order to force its competitors out of the market and thereafter let prices rise again. Due to its huge foreign currency reserves, in the short to medium run, Saudi Arabia is in the position to balance a budget deficit resulting from low oil prices. However, according to estimates of Deutsche Bank and the International Monetary Fund, in the long run Saudi Arabia would be in need of an oil price slightly above one hundred dollars per barrel in order to balance its budget (Mirzayev 2015). Yet the strategy of relegating competitors through a price war would only be promising if the fracking industry reduced investment *and* were incapable of quickly resuming investment and production when prices go up again. Moreover, the fracking industry could also meet the challenge by investing in advanced technology to produce oil at lower costs. It is yet unclear how well the fracking industry in the US will survive the current oil price crisis (Vita 2016).

Furthermore, the strategy to keep one's own production up does not discriminate between foe and friend: the low oil price affects not only the American oil industry, but all others as well. That Venezuela, which is a decade-old ally of Iran, is currently going through a major socio-economic crisis, which is exacerbated by the low oil price (Lopez 2016), does not pose a problem to Saudi Arabia. However, Saudi Arabia's behavior could also alienate regimes basically friendly to it (for instance the neighboring Gulf States) and ready for cooperation. They could arrive at the conclusion that Saudi Arabia is unreliable. However, any future agreement would only be effective if oil producers trusted each other.

Relative gains toward Iran?

Iran, which decided in the last minute not to attend the meeting in Doha (Gambrell 2016), had signaled that it was ready for an agreement to freeze oil production. However, it insisted that it would only participate if its production level were based on the period prior to the sanctions imposed on Teheran in 2012. Possibly one of the reasons, if not the main one, for Saudi Arabia's decision to let the Doha meeting fail was to harm its main foe in the Middle East (cf. Klare 2016). However, can it be considered rational to refrain from going for cooperation and yielding its potential benefits in order to assure that a competitor does not benefit? If we assume that petrodollars are a purely economic good, we should rather assume that a rational actor would focus on its absolute gains, which, given the fact that Saudi Arabia is by far the biggest producer in OPEC, would have been particularly high. However, actors may under certain circumstances perceive petrodollars in the light of relative gains. As Saudi Arabia and Iran have developed increasingly hostile relations over the last decades, Riyadh may very well perceive any gains for Teheran as very costly: Petrodollars are easily convertible into resources that might be turned against Saudi Arabia and its allies in the Middle East, for instance in the form of financing weapon supplies. Thus, it is compatible with a rational policy that Saudi Arabia objected a deal in Doha also to prevent Iran from developing its potentials.

From a defensive to an offensive foreign policy?

Saudi Arabia is exposed to a highly complex global oil market with many relevant players whose behavior is difficult to calculate. In other words, Saudi Arabia acts under a high degree of uncertainty. Thus, one should be cautious to assess Riyadh's behavior as irrational. Yet, as the present short analysis has revealed, Saudi Arabia's behavior in the Doha meeting in April 2016 was rather uncooperative toward other oil producers. Rather than promoting long-term cooperation among them, Saudi Arabia pursued a short term strategy which does not constrain future options

— however, possibly at the expense of alienating potential cooperation partners. Moreover, Riyadh seems to have valued current losses of its major adversary in the Middle East — Iran — higher than potential own gains in the future.

In the 20th century, Saudi Arabia faced the challenges of potential regional powers such as Egypt in the 1950s and 1960s, as well as Iraq and Iran in the 1980s, in a rather re-active way. Yet, as a response to the Arab uprisings, Saudi Arabia's approach toward the region of the Middle East has become more offensive, for instance in its policies toward the Assad regime in Syria, the Huthis in Yemen, and Hezbollah (Beck 2015). There is no easy answer to the question whether an offensive or defensive foreign policy approach is more rational. However, it may be considered rational to follow a coherent approach. In that way the Saudi decision to let the Doha summit fail may be considered as a stone in the mosaic of Saudi Arabia converting its former defensive foreign policy approach into an offensive one.

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