



THE JAMES A. BAKER III INSTITUTE FOR PUBLIC POLICY
RICE UNIVERSITY

SAUDI ARABIA AND THE INTERNATIONAL OIL MARKET

AN EXECUTIVE SUMMARY OF
THE SPECIAL PRESENTATION BY

HIS ROYAL HIGHNESS
PRINCE SAUD AL FAISAL
BIN ABDULAZIZ AL-SAUD
FOREIGN MINISTER, THE KINGDOM OF SAUDI ARABIA

WEDNESDAY, SEPTEMBER 21, 2005

Saudi Arabia and the International Oil Market

In a September 21, 2005, keynote address at the Baker Institute, His Royal Highness Prince Saud Al Faisal Bin Abdulaziz Al-Saud, foreign minister of the Kingdom of Saudi Arabia, expressed grave concern that the United States is not acting more forcefully to prevent the potential disintegration of Iraq and the threat of a major regional conflagration.

In a question and answer session following his lecture, “Saudi Arabia and the International Oil Market,” Prince Saud said that the United States, rather than enforcing its historic role as both a protector of a sovereign Iraq and a stabilizing regional force, was instead, inadvertently facilitating powerful Iranian interests infiltrating southern Iraq.

He noted that during the Iran-Iraq War, from 1980 to 1988, the United States and Saudi Arabia intervened to save Iraq from Iranian attacks. The United States also prevented Iraq from taking over Kuwait in 1991. Yet currently, he said, U.S. forces, along with British military, have allowed Iran to bring in people, money, and weapons, interfering with political life in the southern part of the country under their control. “Now, it seems that Iran is being handed ... Iraq on a golden platter,” he said.

He warned of the danger of sectarian strife dividing the Arabs of Iraq, the Sunnis and the Shia, on top of creating a separate entity for the Kurds in northern Iraq. While the special position of the Kurds is not new, he called for efforts to bring the Arabs together rather than to divide them. If the Arabs are allowed to split into separate entities, he said, Iraq risks disintegrating into three parts, drawing neighboring countries to support those individual groups and potentially leading to regional wars.

Also covered in the question period were developments in the Middle East peace negotiations between Israel and the Palestinian Authority. Prince Saud praised Israeli Prime Minister Ariel Sharon for withdrawing from the Gaza Strip, but added that it would be a meaningless gesture if it were not followed by other steps as outlined in the Roadmap for Peace and the peace proposal put forth by King Abdullah bin Abdulaziz and endorsed by the Arab League.

In his lecture on “Saudi Arabia and the International Oil Market,” Prince Saud focused on the risks posed by sharply escalating oil prices—which have doubled to more than \$65 per barrel since 2002. He called on the United States, the world’s largest oil consumer, and Saudi Arabia, the largest producer, to work together to assess the situation so that it does not further depress the global economy and create social and political instability.

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Prince Saud stressed “Saudi Arabia’s proven record of meeting its oil production commitments irrespective of international crises and political turmoil or even wars,” and noted that the kingdom remains a reliable supplier regardless of the circumstances. “Yes we have kept our commitment even when wars were being fought in our region, when oil tankers were being set ablaze in the Gulf and when our cities and oil facilities were being attacked by scud missiles,” he said. Prince Saud added that Saudi Arabia would be enhancing this role by investing in substantial new refining capacity for the United States and the world market.

In his lecture at the Baker Institute, Prince Saud announced that Saudi Arabia plans to build two new refineries in Saudi Arabia, adding 800,000 barrels per day of refining capacity, and he added that the kingdom is also willing to build refineries and invest in new refinery capacity in the United States. He called on U.S. companies to partner with Saudi Arabia in the United States or in the kingdom in refining, noting that now that Saudi Arabia is joining the World Trade Organization (WTO), investors could take 100 percent of refinery ownership in a new export facility in Saudi Arabia.

“Today I heard that we are opening or are in the process of establishing two refineries with a capacity of 800,000 barrels per day in Saudi Arabia,” Prince Saud said in his speech. “With our entry into the WTO, of course, we will follow the rules of the WTO so investors in Saudi Arabia will be able to own the refinery completely, and own land, and so forth,” he noted during a response to questions following his address.

This new Saudi commitment represents an important political statement: Saudi Arabia, as a key U.S. ally, is essentially offering a long-term solution to the energy crisis by directly addressing what it considers to be the major problem in the oil market—the critical shortage in world refining capacity.

“We are willing to invest in downstream operations in the country as well as building refineries in Saudi Arabia,” he said in response to a question. “As a matter of fact this is a necessity.” Through its Motiva Enterprise joint venture with Shell, Saudi Arabia already has a significant presence in U.S. refining, distribution, and marketing. Prince Saud added that some private Saudi companies have the resources, manpower, and financial strength to partner in projects with either the Saudi government or foreign governments.

While disagreeing that markets are suffering from a shortage of crude oil, Prince Saud noted that, for the first time in decades, there is no sizable excess crude oil production capacity. To address

this situation, Saudi Arabia has committed to increase its oil production capacity—by 2.4 billion barrels per day by 2009. But Prince Saud stated that the energy price and supply issues causing concern in the United States are not related to oil production volumes, but rather to gasoline formulations, limited refinery capacity, lack of storage capacity, and various other restrictions that have paralyzed the energy industry in the Western Hemisphere.

Citing U.S. Energy Information Administration figures, Prince Saud noted that global refining capacity has only increased by 1.3 million barrels per day during the last five years. Meanwhile, oil demand has increased by more than 7 million barrels per day. Today, he said, global refinery capacities stand at 82.7 million barrels per day, more than one million barrels a day short of global demand.

For Saudi and other new refining investments to be successful, Prince Saud said that Saudi Arabia and the United States must work together not only by investing in new opportunities to alleviate the refined products bottlenecks, but in particular, by properly addressing the issue of standardizing fuel specifications.

“Facing these challenges [requires] a joint effort by oil producers, oil consumers and the oil companies,” he said. “The imposition of boutique fuel specifications on a state by state and country by country basis only confounds efforts to formulate global solutions for overall fuel shortages,” he said.

Indeed, there are an estimated 55 grades of gasoline used at various times of the year in the U.S. market alone.

Prince Saud said that as oil supplies from the North Sea, Alaska, and the continental United States lag behind demand, heavier crudes with higher, more polluting sulphur content will be increasingly the only supplies available to meet increased demand. He said that environmental technologies were available to address this challenge, but he warned that fuel specifications must be standardized to modify refinery processes on a timely basis. “This is something we must resolve urgently if we are to ensure fuel specifications and optimum refinery efficiencies over the next decade.”

To face these challenges jointly and institutionalize fruitful dialogue amongst oil producers, oil consumers, and the oil companies, King Abdullah bin Abdulaziz has established a Secretariat for the International Energy Forum in Riyadh, Prince Saud noted. A primary function has been to

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facilitate data exchange and transparency through the administration of the Joint Data Initiative. This involves monthly submissions from producing and consuming countries. King Abdullah also called for convening a conference under the auspices of this International Forum.

At the end of his lecture, Prince Saud stressed the need for stability in the Middle East, noting the region is the source of more than 65 percent of the world's oil reserves and 45 percent of its gas reserves, and he emphasized the urgency of ending the Arab-Israeli conflict. Such a resolution would not only end decades of human suffering, but curtail market speculation that has been damaging to the oil markets.

Prince Saud reiterated the importance of measures that have been outlined in the Roadmap for Peace and the peace proposal put forth by King Abdullah bin Abdulaziz.

“It is time for the Israelis to put their cards on the table,” Prince Saud said, in response to a question, noting that King Abdullah has called on the people of Israel to make their voices heard. “We have to live with the Israelis, and we are ready. And I hope that the Israeli government is ready to move as quickly as we are willing to move.”