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Supplicants to Saudi Arabia: The Jeddah Energy Meeting

By Simon Henderson
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This weekend, Saudi Arabia will attempt to counter accusations that it has not done enough to stop rising oil prices by hosting an international energy summit of government and oil-company officials. Invitations were sent after the kingdom -- the world's top oil exporter, home to nearly a quarter of known reserves -- was pressured to take action on prices that have increased 40 percent so far this year. Unless Saudi pricing policy changes, however, the meeting is unlikely to bring any relief to consumers.

Saudi Self-Justification

The one-day gathering in the port city of Jeddah is a Saudi public relations effort to explain that high prices are not the kingdom's fault. Saudi Arabia is expected to increase production by around 500,000 barrels per day to meet world demand, which is currently around 85 million barrels daily. But Saudi officials do not feel responsible for addressing other factors that affect rising oil prices, including what is often called "political risk," such as the civil unrest in Nigeria and the diplomatic confrontation over Iran's nuclear program. Nor do the Saudis want to respond to what investors have been doing in the financial markets for months: betting oil prices will continue to rise.

The Saudis have set up a website for the meeting. The morning session, which will be closed to the media, will feature a discussion led by the assistant Saudi oil minister. But the focus of the meeting will be the after-lunch comments of King Abdullah, the eighty-five-year-old monarch, who is still the key decisionmaker despite his increasingly limited abilities. Observers will be watching for any repeat of a faltering performance he gave recently on Saudi television. As it is, his address is only scheduled to last ten minutes. After another ten-minute speech by British prime minister Gordon Brown, the king will leave. With the media again excluded, the afternoon session will be chaired by Saudi oil minister Ali al-Naimi, and will include a series of speeches -- no more than seven minutes each -- by visiting delegations. Just seven hours after starting, the meeting will end with a public communique.

The Jeddah meeting is unlikely to be a forum for anything other than platitudes, stressing cooperation rather than disagreement. Given Saudi dominance in the energy market -- oil accounts for 36 percent of the world's energy -- few national or corporate energy officials will want to risk jeopardizing access to the country's wealth. When initially announced, Abdullah probably hoped President Bush would attend, but Energy Secretary Samuel Bodman will represent the United States instead. British prime minister Brown is expected to speak of the need for enhanced consumer-supplier cooperation, although it is suspected that the primary purpose of his visit will be to secure an arms deal contract. Helping the Saudis spend or invest its latest avalanche of wealth -- at current prices, its export revenues for 2008 could top $380 billion -- is a priority for trading partners as well as investors.

What the Saudis Can Do

Despite the prevailing view that utilizing Saudi spare capacity will not stop the upward pressure on prices, the kingdom retains an influence on market sentiment, something it has so far declined to use. Its innocence on more straightforward market manipulation is not as great as it claims. While most crude oil is sold through bidding on the world market, Saudi crude is not. Instead, Riyadh sets its price according to a formula related to other crudes. By sticking to the premiums in this formula, Riyadh arguably prices its crude too high. This sends a signal to the oil markets, creating a self-reinforcing process that has steadily increased prices.

There are, however, tentative signs that the king may try to change course. Abdullah is more likely to be swayed by the negative impact of high prices on his friends and allies than by a technical argument over the kingdom's pricing policy. Observers point to a series of influential visitors who may have focused the monarch's attention on the urgency of the matter. In two visits to Riyadh this year, President Bush failed to bring about a policy shift, but a growing procession of leaders has been turning up to complain since then. On June 8, new Pakistani prime minister Yousef Raza Gilani, a key non-Arab Muslim ally, reportedly asked for $6 billion in delayed payments and other assistance to offset the high cost of imported oil. King Abdullah of Jordan visited on June 15, no doubt making the point that Arab countries without oil reserves, such as Jordan, Morocco, and Tunisia, were facing increasing financial difficulties. Perhaps one of the most influential visitors was UN Secretary-General Ban Ki-Moon, who explained the situation's impact on developing countries.

Challenges for Saudi Arabia

Although the Saudis want a consensus from the Jeddah meeting, such an outcome seems unlikely. Already, Iran has complained publicly that Saudi Arabia's proposed production increases fall outside the forum of the Organization of Petroleum Exporting Countries (OPEC). Disagreement or helplessness will not only undermine Riyadh's oil leadership, but also its parallel leadership of the Arab and Muslim worlds. Abdullah is said to be concerned about the stalemate in the Middle East peace process, the growing emergence of Iran as a nuclear power, and the Shiite domination of neighbouring Iraq. But the monarch's earnestness is not matched by any successful achievement. Instead, his reign is becoming a byword for the weakness of geriatric autocracies.

U.S. Policy

The challenge for Washington is to halt or reverse the increasing prices that have spread to food and other fuel commodities, and threaten the world economy. Although public declarations help, tougher, arm-twisting methods often yield more. Choosing whether to do this in public or private poses a dilemma. Since much of the world regards Saudi Arabia as rich and extravagant, public recommendations for changes could be especially effective this time. Current high oil prices and the prospect of further peaks mean that any concern about the risk of upsetting habitually sensitive Saudi officials should be ignored.

A parallel challenge is for the world to adapt to price changes and the prospect of increasing energy demand, which is forecasted to increase 50 percent by 2030. This suggests the world needs every existing energy source as well as new ones. One consequence of high oil prices is that other alternative energy sources become more viable.

Domestic energy policy is emerging again as a key debate in U.S. presidential elections. In the last two campaigns, rival candidates urged greater independence from oil exporters such as Saudi Arabia. This annoyed Riyadh and resulted in the cutback of expansion plans for oil production, leading, at least partly, to today's high prices. The Jeddah meeting itself is unlikely to break that vicious circle but it may be a starting point. Saudi Arabia remains a key to lowering oil prices, and if emphasis is placed on its pricing policies rather than simply its production levels, there might be a way forward.

Simon Henderson is the Baker fellow and director of the Gulf and Energy Policy Program at The Washington Institute. His latest publication, the Institute Policy Focus Energy in Danger: Iran, Oil, and the West, *was published earlier this month.*