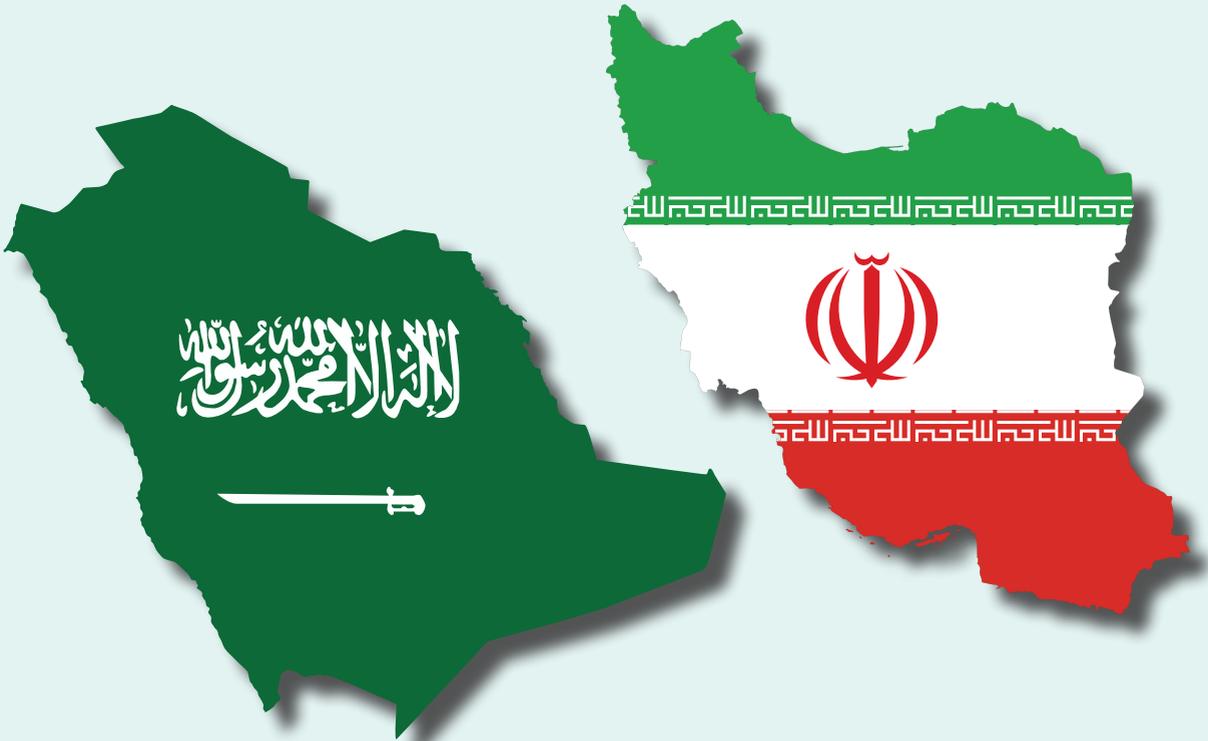




The Role of Resources, Economics and Energy In The Increasingly Fierce Rivalry Between Iran and Saudi Arabia

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Summary

Neoliberal thinking¹ provides a broad-spectrum interpretation of the role of resources in regional rivalries, and issues such as identity, energy and water resources are considered legitimate reasons for rivalry in international politics. Strategists argue that in the years following the Cold War, there was good reason for new regional and international rivalries to erupt: such as the crisis in Ukraine and the security crises in Iraq, Syria, Yemen, and in other countries of the region – all of them examples of conflicts over energy resources. It follows that in light of these crises, multilateral cooperation on the regional and international levels should evolve to satisfy Iran's and Saudi Arabia's shared revenue needs. Oil is one of the factors that can enhance cooperation and inter-state relationships. Harmonising Iranian-Saudi relations in the area of resource diplomacy is part of the neoliberal imperative of linking strategic and economic issues.

1. Neoliberalism: Ideology based on economic liberalism, which is the economic component of classical liberalism. It advocates absolute capitalism and non-state intervention in the economy.

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In this paper, we deploy neoliberal thinking as a tool to improve the nature of the relationship between Iran and Saudi Arabia. Neoliberalism sees the possibility of expanding relationships with strategic regions through economic cooperation. The key question here is: how to rebuild regional relationships between Iran and Saudi Arabia? Therefore, the present research explores this question, relying on the hypothesis of whether it is possible to rebuild regional relationships between Iran and Saudi Arabia based on resource economics and its impacts on diplomacy.

Introduction

In the post-Cold War years, global politics have been influenced by issues such as identity, economy and resources, especially oil. The Islamic Republic of Iran and Saudi Arabia are among the largest oil and gas producers in the Middle East and the world. The world's advanced industrialised countries have been unable to dispense with energy – especially oil and gas – even as they pursue their own international trade policies and try to establish a power bloc to counterbalance ascendant powers around the world, and the Middle East in particular.

The possibility of using the energy diplomacy approach for Iran and Saudi Arabia is an important consideration, as it provides the groundwork for what is otherwise an unpalatable regional role and at the same time creates an economic platform for the cross-fertilization of interests between the respective countries. Energy economics is

considered a strategic issue in the literature of international relations and provides the basis for sustainable development from the economic, social, environmental and political standpoint. In other words, energy diplomacy is a set of behaviours and interactions of one country with the rest of the international community: a diplomatic tool with which to participate in the international scene and for the country to maintain its place in the international order.

Energy diplomacy has its own long-term objectives that seek to maintain the energy security of a country. A strong diplomatic framework is a prerequisite if a country is to be successful in achieving its two main objectives on the global energy scene: one is securing energy supplies and the other is protecting national security or national interests.

The role of energy diplomacy in foreign relations

Oil has always been a strategic commodity since the beginning of the last century. At that time, energy was needed mainly to fuel the engine of war. However, during the Cold War, oil became an important factor in the growth of industrialised nations and because of its impact on global economic growth, the demand for hydrocarbon energy greatly increased.

However, nowadays if there is no accord between energy producers and consumers, fear and distrust become central issues in the foreign

relations between countries. Foreign relations are formed through diplomatic channels at different levels and given the increasing importance of energy in the regional interactions of the main oil producing countries and key consumers, energy diplomacy has become a key aspect in the foreign relations between these countries. Indeed, energy diplomacy has become one of the primary facilitators for foreign trade between countries with oil reserves and net energy exports and countries with advanced gas and petrochemical technologies and major consumers.²

Energy diplomacy tactics in Saudi Arabia's Regional Politics

Saudi Arabia has huge oil reserves, and for years it has controlled the global oil market. The Kingdom has the capacity to produce and export huge amounts of crude oil to the world. It currently has a refining capacity of more than three million barrels per day, with the ability to increase capacity to 9.5 million barrels per day. Such capability has strategic implications for the region.

For this reason, Saudi Arabia has played a vital role in stabilising the oil markets, a role highlighted during the past decade with the ever-present possibility of future increases in demand for oil. Based on such assumptions, experts estimate that global energy demand will rise from 273.9 to 382.1 million barrels of oil equivalent in 2040, an annual

2. Vaezi, Mahmoud. (2010) Iran's Energy Diplomacy and the Super Powers in the Persian Gulf; a collection of articles on oil and foreign affairs; The Centre for Strategic Research at the Expediency Council.

growth rate of 1.3%, and that oil and gas will maintain their current overall market share of 53%.

As expected, the annual growth in demand for gas will be 2.1%, i.e. greater than the 0.6% rate of growth for each of oil and coal. Growth in the demand for renewable energies from solar, wind and geothermal sources will be 6.6%, the highest of them all, because the trend for using these renewable energies to generate electricity is no longer an emergency. The report remains positive with regard to the growth in demand for oil, which is expected to rise to 99.2 million barrels per day in 2021, that is an increase of one million barrels more than forecast last year, due to the continued fall in oil prices. Daily demand will gradually increase to 109.4 million barrels per day by 2040, which is slightly less than was expected last year, largely due to competition from renewable energies and electricity.

The Economics of Energy in Saudi Arabia

Saudi Arabia relies on oil to obtain more than 90% of its revenues³. Saudi Arabia's energy policy is in line with that of industrialised countries. The Kingdom is the largest energy market in the Middle East, in another words, the richest source of fossil fuel in the world, and this state of affairs has opened up opportunities for technological advances in new sources of energy. This may explain the rivalry with Iran in the

3. Saudi Arabia: Tackling Emerging Economic Challenges to Sustain Growth – IMF.

context of a controversial war on the basis of resource management in the political economy of conflict.

According to neoliberal attitudes, any economic programme in a country such as Saudi Arabia will have ramifications for the regional and international political economy, since economic cooperation is essentially based on the participation of the actors. We can see that since OPEC's decision, oil prices have fallen by more than 32%. This decision was dictated by a desire on the part of influential member states, notably Saudi Arabia, to curb the supply of shale oil in the United States and Canada. The object – by allowing a further drop in world oil prices– was to make the shale oil producers bear the losses of falling oil prices, especially since the cost of extracting shale oil is much higher than the cost of extracting conventional oil. The cost of producing oil in Saudi Arabia and the Gulf countries, with the exception of Iraq, is about \$5 per barrel, whereas in the United States, it is between \$70 and \$85 .

Some believe that what is happening in the oil markets is a form of punishment for some of the oil producing countries. Some of the big oil producers in the world, including the United States – who despite its losses in shale oil – agreed to drop prices in order to punish Russia economically and to exert pressure on it because of its stance in the Ukraine crisis. It was also meant to punish Iran, against whom sanctions had been relaxed, thus increasing its ability to export oil.

The role of Iranian energy diplomacy in regional politics

The oil industry is a key feature of the Iranian economy. It accounts for a significant proportion of the country's GDP. Therefore, the state relies on it to run the economy, whilst also enabling it to maintain the independence of the state budget with oil revenues and providing sustainable economic development. We will use the Islamic Republic of Iran as an example of this industry. Iran has 137 billion barrels of liquid hydrocarbons and 29 trillion cubic meters of recoverable natural gas reserves. It is also one of the top countries in the world in the field of energy⁴, second only to Russia in the number of gas fields it owns and has the capability of meeting a large part of Europe's energy needs through a gas pipeline to Europe, such as the Nabucco pipeline⁵. However, America's opposition compromised Iran's chances of becoming a major player through the export of gas to Europe. Tehran – which has only a small share of the world's gas market – is pursuing an internal strategy to increase its share of the trade. However, unfavourable political and economic conditions and the sanctions, have curtailed Tehran's ambitions to play a prominent and creative role in the international gas market. The Nabucco gas pipeline to the European continent had the potential of doubling Iran's export quota. However, in view of the challenges and obstacles facing this project, Tehran hopes that Iran's

4. Refer to Iran's Energy Balance Sheet for 2008

5. The Nabucco pipeline supplies gas from the Caspian Sea and the Middle East to Europe.

future gas pipeline will run across Iraqi–Syrian territories and then to Europe.

Iran – in view of its unique position in the field of energy, finds itself occupying a critical space internationally, and thus seeks to establish a solid diplomatic framework in the energy field. In the past, and unlike the present, Iran’s state institutions charged with overseeing the country’s energy economy, were not accustomed to playing a central role in this field.

Iranian–Saudi Diplomatic Mechanisms in the Regional Environment

The balance of regional hegemony is part of the strategic policy pursued by both Iran and Saudi Arabia. The Kingdom believes that any imbalance in the region requires outside intervention to restore the balance, and more importantly, to do so in the interests of Saudi Arabia and in furtherance of its vision, especially considering the weakness of the GCC countries. This was evident during the first Gulf War when the GCC countries turned to the international order, led by the United States, in order to maintain the balance of the multipolar forces, thus preserving the security and sovereignty of the council countries, without permitting any single regional power from gaining the upper hand.

Historically, after the Gulf states recovered from the first Gulf War, there was a change in Saudi policy toward Iran, marked by the visit of Saudi Foreign Minister Saud al-Faisal to Tehran, which was an important step towards easing tensions and building trust between the two sides. It was an indication of a balancing exercise in the oil policy of the region, adopted by Saudi Arabia in the context of reconfiguring political relations. We should mention that Iran tried to use its political prowess to take advantage of this oil policy, in that there was significant rapprochement between Iran and other OPEC countries – especially with Saudi Arabia – when Iran, along with other oil exporters, signed an agreement in Riyadh to stem the fall in oil prices.

The signing of the agreement was followed by Iranian President Mohammad Khatami's visit to Saudi Arabia. Kharrazi, the then foreign minister, described Khatami's "historic visit" to Saudi Arabia as a genuine platform for the development of stability and security in the region. The agreement in March 1998 between the two countries led to an increase in the price of a barrel by approximately \$14.50⁶.

Subsequently, relations between Iran and Saudi Arabia flourished in the various political, educational, economic and security fields, especially after the visit by Khatami and other officials to Saudi Arabia. This included the announcement of cooperation in a variety of areas,

6. Ramezani, Amir (2013), The role of Iranian and Saudi oil policies in relations between the two countries during 2000–2010, p147; The Islamic Azad University, Science and Research Branch, International Relations, Tehran – Iran.

with energy, education, the economy and security at the top of the list. In relation to matters of security, an emphasis was placed on the need to explore opportunities for military cooperation, especially in training, and to exchange visits by technicians and military personnel, including a visit by the Saudi defence minister to Iran for talks on bilateral and multilateral cooperation between Tehran and Riyadh. The two countries soon had a coordinated OPEC policy on oil production, bearing in mind that between them, Iran and Saudi Arabia own at least 60% of the world's oil reserves.

With the election of Mahmoud Ahmadinejad as President of Iran in July 2005, the ninth government after the Islamic Revolution turned its attention towards formalising relations and foreign policy affairs on the basis of certain fundamental principles. These principles are derived from the guidance of the Supreme Leader of the Islamic Republic according to the tenets of dignity, wisdom, and self-interest; and the implementation of Article 48 of the Iranian Constitution, which provides that consideration should be given to the equitable use of logic and political, social and economic opportunities⁷. This marked a major shift in Iran's domestic and foreign policies and conveyed to the outside world a very different message to the previous one⁸.

7. Molana, Hamid and M. Mohammadi (2008); Foreign Policy of the Islamic Republic of Iran during the government Ahmadinejad, pp. 134-145. Tehran: Dadgostar.

8. Kagan, F, K. Kagan, J. Cafarella, H. Gambhir and K. Zimmerman. (2016). Al Qaeda and ISIS: Existential Threats to the U.S. and Europe, Washington: Institute for the Study of war, Report One, U.S. Grand Strategy: Destroying ISIS and al Qaeda, Jan.

As a consequence, certain countries in the region, particularly the GCC countries, displayed a sense of wariness and unease towards Iran's new political discourse.

The process of changing the resource economy during Rouhani's government

Capitalism influences international politics through energy diplomacy. The interdependence of political, social, economic and legal issues has led to the emergence of a new concept: energy diplomacy. Energy diplomacy involves using the tools of diplomacy and the establishment of collaborative platforms on energy issues.

Part of Iran's regional policy in the Rouhani government is predicated on energy diplomacy. The Iranian Oil Ministry is seeking to access the banking, commercial and financial markets through the mechanism of energy diplomacy. This approach may be gleaned from an interview with Iranian Oil Minister, Bijan Zangana, at the OPEC ministerial meeting in Vienna. This approach also suggests that certain regional countries – including Iran and Saudi Arabia – are capable of resolving their differences through the medium of energy diplomacy.

However, conditions were not favourable or conducive in this regard between Iran and Saudi Arabia. This is because of the suspicions surrounding the notion that the energy economy of the twenty-first century has gradually transformed into one of resource economy, with the resource economy needing a more complex

process to rationalise present day conflicts⁹.

Evidence of this may be found in the current state of affairs in terms of low oil prices and the impact this diplomacy has had on regional and global policy.

Historical and strategic perspectives

- The rivalry between Iran and Saudi Arabia over economic resources has undergone fundamental changes. The quest to promote stability in the international political economy is not achieved solely with the creation of financial, banking or commercial resources, sine geopolitical identities and components, such as water, energy and identity, have become the new determinants of the international political economy.

- The experiment with energy diplomacy as part of Iran's economic policy dates back to 1991, as relations between the two countries thawed and evolved under President Khatami. A clear shift within OPEC was also evident with the close cooperation between Iran and Saudi Arabia in the efforts to exert greater control over the oil markets; balancing supply and demand and persuading major non-OPEC oil states to adopt the Organisation's policies and decisions. In fact, the strategic alignment of the two countries within OPEC was one of the main manifestations of President Khatami's foreign policy of easing tensions and building confidence in relations between Iran and Saudi Arabia.

9. Haykel, B. *ISIS: A Primer*. Princeton: Princeton University Press. 2015- p.14

- Iran–Saudi relations were tense at the beginning of 2003; the reason for severing relations was largely due to the way the parties conducted themselves over issues involving regional conflicts, such as Daesh (IS) and other fundamentalist groups.

- One of the factors behind the cooperation between the two countries in the field of oil and energy was – and still is – OPEC, as both Iran and Saudi Arabia have been, from the outset, two of the most important members of the organisation. Saudi Arabia – in particular – holds at least a quarter of the world’s total oil reserves and the world’s largest producer of oil within OPEC; whilst Iran is the third largest exporter of crude in OPEC after Saudi Arabia and Iraq. Therefore, the respective energy policies of both countries is intrinsically linked to the way they each deal with the new realities in the region.

The root cause of the crisis in the relations between Iran and the Arab countries in the region – particularly in Saudi Arabia – are the economic and political challenges of resources. The multiplicity of regional conflicts and the linkage between the energy economy and resource economics and identity have resulted in broadening the range of security and strategic challenges for both Iran and Saudi Arabia during the second decade of the twenty-first century.

Conclusion

Energy diplomacy encompasses the processes of negotiations and cooperation on the international, regional and domestic level, and includes dealing with potential legal disputes and conflicts of interest and working to resolve them. The state of today's world economy carries with it a degree of uncertainty due to historical problems and modest growth prospects, but at the same time does provide some positive indications. Solving outstanding political differences between Iran and Saudi Arabia, particularly in the energy sector, will boost the economic and political growth of both countries. Of course, this is unlikely to prove easy but there is always hope.

Energy diplomacy has the potential to create a balance between the two parties for the common good of the region, which is a strategic necessity for both Iran and Saudi Arabia in their relations. Moreover, the inevitability of the relationship between the two countries is almost a forgone conclusion. If and when the two countries harmonise their behavioural patterns, they will achieve a balance in the arenas of oil policy and energy diplomacy, making it possible to continue cooperation and to dismantle political differences from a political perspective.

One obvious fact for both Iran and Saudi Arabia is that the Gulf region does not have to live with the inevitability of mutual enmity and conflict, but can in fact offer numerous economic, security and geopolitical opportunities for the global economy.

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3 - Saudi Arabia: Tackling Emerging Economic Challenges to Sustain Growth IMF

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4- Refer to Iran's Energy Balance Sheet for 2008.

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