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US-Saudi Relations in Turmoil after the OPEC+ Decision to Reduce Oil Production

Unit for Political Studies

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The Arab Center for Research and Policy Studies

Al-Tarfa Street, Wadi Al Banat

Al-Dayaen, Qatar

PO Box 10277, Doha

+974 4035 4111

www.dohainstitute.org

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On 15 October, the OPEC+ decision to reduce oil production by 2 million barrels daily, starting from November 2022, ignited tensions between long-standing allies, the US and Saudi Arabia. Washington had pressured the bloc's member states, especially Saudi Arabia, the world's largest oil exporter, to wait another month to assess the market's situation before taking any decision to reduce production, given that this would raise global prices and subsequently see inflation rates soar.

Washington thus accused Riyadh and other OPEC members, of standing with Russia, a member of the group, and enabling it to reap more profits from raising oil prices — exacerbating the impact of the Ukraine war on global, especially Western, economies. Meanwhile Saudi Arabia denies these claims and insists that the decision was based on purely economic considerations, hinting that the White House's statement in this regard serve political and electoral purposes with the US midterm elections due to take place on 8 November, 2022. The Democratic Party faces difficulties in maintaining its majority due to economic challenges and rapid inflation.

Rethinking the Historical Relations

Following OPEC's decision, not long after his visit to Saudi Arabia, President Joe Biden told the US press that "it is time to rethink its relationship with Saudi Arabia,"¹ while Democratic members of Congress demanded the imposition of harsh sanctions on Riyadh.² They see the Saudi position, which they describe as supportive of Russia also intends to damage their chances in the upcoming elections. The claim the timing of this decision, just weeks before the elections, cannot be a coincidence and that a Republican victory in the mid-terms could pave the way for former president Trump, who has a strong relationship with Riyadh, or another Republican, to return to the White House.³

Earlier this year Biden's summer visit to Saudi Arabia and his meeting with Crown Prince bin Mohammed bin Salman were met with harsh criticism at home. He was accused of backtracking on his electoral campaign pledges to be tough on Saudi Arabia in light of its human rights record and the assassination of the Saudi journalist Jamal Khashoggi in 2018. Biden hailed the visit a success as Riyadh subsequently increased its oil production, seemingly opening a new chapter in Saudi-US relations.

Days before the OPEC decision to reduce production, Biden sent two of his senior advisers to the Kingdom, where they presented an analysis to demonstrate there no market-related considerations require a reduction in production, asking OPEC+ to wait until the next meeting before taking such a decision.⁴ However, the Saudis insisted that there is a decline in global demand for oil due to the

¹ Nadeen Ebrahim & Abbas Al Lawati, "As the US-Saudi Oil Spat Intensifies, What are Biden's Options?" *CNN*, 14/10/2022, accessed on 31/10/2022, at: <https://cnn.it/3NsPy1l>.

² Aaron David Miller, "Saudi Arabia Is Not a U.S. Ally. Biden Should Stop Treating It Like One," *Foreign Policy*, 11/10/ 2022, accessed on 31/10/2022, at: <https://bit.ly/3U80iEs>.

³ Ibid.

⁴ Alayna Treene, Hans Nichols, "Biden's New Saudi Strategy," *AXIOS*, 5/10/2022, accessed on 31/10/2022, at: <https://bit.ly/3NjbhJ8>.



tightening of monetary policies in the US and Europe and Covid-19 lockdowns in China, which may lead to oil price collapses.⁵ The president linked any decision he takes opposing Saudi Arabia to consultations he will hold with Congress after the mid-terms. According to National Security Adviser Jake Sullivan, Biden will “act methodically” in his response, and he will not meet bin Salman at the G20 summit in Indonesia in mid-November.⁶

US Options

The US has several tools under its belt to put pressure on Saudi Arabia, but its influence depends on two factors. The first is the extent to which the US wants “rethink” its relations with Saudi Arabia, and the second is the extent of the repercussions that Washington is willing to bear as a result of its response to Riyadh. The most important options that the United States has are:

Finding new oil sources to compensate for the loss of Saudi oil

US options to compensate for the oil supply appear limited. There are reports that the Biden administration may ease sanctions on the Maduro regime in Venezuela and allow the US company Chevron to resume oil export activity in Venezuela, but this would have significant political repercussions for the White House given that the US is yet to recognise the legitimacy of Maduro’s 2018 elections, the integrity of which was challenged by the opposition. It seems that the Biden administration is bargaining with the Maduro regime about conducting meaningful dialogue with the opposition and taking constructive steps in exchange for easing sanctions, but this matter depends on Maduro’s response, which there are no indications of so far.⁷ There is also talk that a possible nuclear agreement with Iran may result in pumping more than one million barrels of oil per day to international markets, but this option is off the table for now.⁸

Biden still has the possibility to release more of the US Strategic Petroleum Reserve, which has been his strategy so far. On 9 October 2022, he ordered the release of 15 million barrels starting in November to maintain current prices. This follows the decision he took in March to pump 180 million barrels into the market to curb the rise in fuel prices. In November 2021, Biden ordered the sale of 50 million barrels from this reserve. Although these decisions flattened surging fuel prices in the US, they had consequences; the US strategic reserve fell to about 400 million barrels, prompting Republicans to accuse the Biden administration of seeking to improve the Democrats’ chances in

⁵ Barak Ravid, “Scoop: Saudis Pressed Arab Nations to Publicly Support OPEC+ Cut,” *AXIOS*, 19/10/2022, accessed on 31/10/2022, at: <https://bit.ly/3sll0xt>.

⁶ David Lawder, “Biden Will Act ‘Methodically’ in Re-evaluating Saudi Relationship,” *Reuters*, October 16/10/2022, accessed on 31/10/2022, at: <https://reut.rs/3FwIChN>

⁷ Carmen Sesin, “There are no Plans to Change Sanctions on Venezuela, Blinken Says as Pressure Mounts,” *NBC News*, 13/10/2022, accessed on 31/10/2022, at: <https://nbcnews.to/3Fsf6d7>.

⁸ Treene, Nichols.

the elections. In any case, relying on the US strategic stockpile is unsustainable, and it cannot restore prices to the level they were when Biden took office in early 2021.⁹

Passing the NOPEC Bill

The Biden administration's second option is to put its weight behind the NOPEC bill in Congress, a project that aims to reduce the ability of OPEC member states to set oil prices by lifting their sovereign immunity before US courts, meaning that the Biden administration could sue them on the basis of antitrust laws.¹⁰ The bill was first introduced in 2000, and since then it has been submitted 16 times in different formats. In 2007, it almost became law after being voted on by a large bipartisan majority in Congress, were it not for President George W. Bush's threat to veto it. In May 2022, a Senate committee passed the bill, but this bill must be voted on in the House of Representatives and the Senate, and then signed by the president himself for it to become law.¹¹

Despite the Biden administration hinting at the possibility of passing NOPEC, there will be major repercussions if it does — for both the targeted countries and the US oil industry. Experts say that if the US courts succeed in capping oil prices globally it would hit US oil companies unable to keep up their output with potential OPEC overproduction because the cost of extracting oil in OPEC countries is so much cheaper than it is in the US.¹²

Furthermore, the OPEC countries could redirect their financial assets currently tied up in the US in order to avoid being subject to US penalties, which would be detrimental to the US economy. In July 2022, Saudi Arabia, the UAE, Kuwait and Iraq, all OPEC members, owned about \$246 billion in US Treasury bonds. The true figure is likely to be much higher if it included bonds held through tax havens such as Luxembourg, the Cayman Islands, Bermuda, Switzerland, and Ireland. It is unlikely that these countries own more than 5 or 10 percent of the total holdings of US sovereign debt but nevertheless, “dumping those assets will rock an already jittery Treasuries market.”¹³ Although these countries would be exposed to huge losses if they rapidly abandoned their US assets, being pushed into a corner may incite them to act recklessly. There are also fears that the passage of NOPEC would push OPEC members to sell oil in currencies other than the dollar, or price it in other currencies in addition to its price in dollars.

Accordingly, it is unlikely that the Biden administration will move forward with NOPEC, even though Republican Senator Chuck Grassley added NOPEC as an amendment to the annual Pentagon spending bill, which gives it a serious chance of being voted in by the Senate in November.¹⁴

⁹ Josh Boak, Zeke Miller, “Biden Announces Release of 15 Million Barrels of oil from Strategic Petroleum Reserve,” *PBS*, 19/10/2022, accessed on 31/10/2022, at: <https://to.pbs.org/3NAqUfv>

¹⁰ Ebrahim & Al Lawati.

¹¹ Javier Blas, “Making OPEC+ Subject to US Antitrust Law Will Backfire,” *Bloomberg*, 17/10/2022, accessed on 31/10/2022, at: <https://bloom.bg/3U8LfdJ>.

¹² *Ibid.*

¹³ Blas.

¹⁴ *Ibid.*

Freezing arms sales and withdrawing troops and defence systems

The third option that the Biden administration could resort to — if the Democrats lose the midterm elections due to high energy prices — is to freeze arms sales to Saudi Arabia and the UAE and withdraw missile defence systems and US forces on their soil. This option is condoned by several Democrats in both houses of Congress, including the influential Senator, Bob Menendez, Senate Foreign Affairs Chairman. Democratic lawmakers accuse Saudi Arabia, and to a lesser extent the UAE, of siding with Russia in its war in Ukraine. While Menendez is demanding that arms sales to Saudi Arabia be capped at no more than necessary to defend American citizens there,¹⁵ other members — such as Representative Ro Khanna and Senator Richard Blumenthal — have introduced a bill in both the House and Senate that, if passed, would halt all arms sales to Saudi Arabia for one year.¹⁶

Three Democratic members of the House of Representatives introduced a bill to end US protection for Gulf partners by withdrawing US forces from Saudi Arabia and the UAE.¹⁷ There are currently about 3,500 American soldiers in the UAE, and some members of Congress are calling for them to be withdrawn.¹⁸ In Saudi Arabia, the United States withdrew most of its forces in 2003, keeping a number of them as advisors and experts to deal with the missile systems and batteries deployed there.

If the US freezes arms sales to Saudi Arabia and the UAE this will have negative repercussions on the two countries. Neither will be able to replace the advanced US weaponry with imports from other countries, including Russia and China. Moreover, it will take many years for the two countries to transform their defence systems (this includes heavy and high-tech weapons, communications, radars, and air defence) from US systems to other systems and they will suffer from their inability to provide spare parts, especially for US-made combat aircraft. In addition, the two countries cannot rely on a Chinese or Russian military presence in the region to provide an alternative to the US military umbrella.¹⁹

However, some experts warn that such harsh measures could push Saudi Arabia closer to both China and Russia. Moreover, any US withdrawal from the region may allow Russia and China to fill the void. In addition, US military sales in 2021 amounted to about 47 billion dollars, of which Saudi Arabia had a 24 percent share — about a quarter of US global arms sales. This means that freezing arms sales to Saudi Arabia will be disastrous for US arms producers and the economy.²⁰

15 Kevin Liptak & Kylie Atwood, “Biden Will Examine all Aspects of US-Saudi Relationship, Including Arms Sales, National Security Adviser Says,” *CNN*, 12/10/2022, accessed on 31/10/2022, at: <https://cnn.it/3slmvx9>.

16 Ishaan Tharoor, “U.S. Democrats Turn up the Heat on Saudi Arabia,” *The Washington Post*, 18/10/2022 accessed on 31/10/2022, at: <https://wapo.st/3WsPsLo>.

17 Nadeen Ebrahim. *Ibid.*

18 “The United Arab Emirates (UAE): Issues for U.S. Policy,” Congressional Research Service, 10/5/2022, accessed on 31/10/2022, at: <https://bit.ly/3NkZA4t>.

19 Sen. Richard Blumenthal, Rep. Ro khanna & Jeffrey Sonnenfeld, “The Best Way to Respond to Saudi Arabia’s Embrace of Putin,” *Politico*, October 9, 2022, accessed on 31/10/2022, at: <https://politi.co/3zvqnW3>.

20 Sen. Richard Blumenthal, Rep. Ro khanna & Jeffrey Sonnenfeld, “The Best Way to Respond to Saudi Arabia’s Embrace of Putin,” *Politico*, 9/10/2022, accessed on 31/10/2022, at: <https://politi.co/3zvqnW3>.



Conclusion

Anger is mounting in the US, along with calls to review relations with Saudi Arabia and to punish OPEC+. However, it is unlikely that this will lead to a fundamental change in the relationship between the two parties, which, since the 1940s has been “transactional, not a ‘deep relationship’, but mutual interests are enough to keep it going.”²¹ Although the US dependence on Saudi oil has declined, it still needs Riyadh to stabilise global energy markets. On the other hand, Saudi Arabia understands that it does not have, in the foreseeable future, an alternative to the US security umbrella, despite the strengthening of its relations with both Russia and China. Therefore, Saudi Arabia, in the midst of its media sparring with the US, rushed to pledge \$400 million in humanitarian aid to Ukraine,²² and voted against the Russian invasion of Ukraine at the United Nations General Assembly, in a move that was welcomed by the White House.²³

²¹ “‘Troubled Marriage’: Oil Spat Unlikely to Break US-Saudi Ties,” *Aljazeera*, 19/10/2022, accessed on 31/10/2022, at: <https://bit.ly/3NI9PG4>.

²² “Saudi Arabia Announces \$400 mln Humanitarian Aid to Ukraine,” *Reuters*, 14/10/2022, accessed on 31/10/2022, at: <https://reut.rs/3zvOSTc>.

²³ Jeff Mason & Steve Holland, “Amid Oil Spat, White House Welcomes Saudi Moves on Ukraine,” *Reuters*, 25/10/2022, accessed on 31/10/2022, at: <https://reut.rs/3SQsBGU>.