

Saudi Arabia destabilised by high-risk move on oil production

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An air of deepening crisis hangs over Saudi Arabia's ruling elite, finding more than merely symbolic expression in the hospitalisation of the 91-year old King Abdullah.

As Abdullah lay in hospital, Saudi Arabia was placed on alert for further jihadi attacks in the aftermath of the killing of General Oudah al-Belawi and two soldiers by a suicide bomber. A border patrol at al-Suwaif, near the city of Arar, came under fire by four attackers, two of whom were killed. One surviving attacker then detonated an explosive belt and killed himself and three of the border guards.

The attack was mounted in retaliation for Saudi Arabia signing up to the US-led operation against Islamic State in Iraq and Syria (ISIS). This destabilising political shift comes as Saudi Arabia, which sits atop the world's largest oil reserves, decided at November's meeting of the OPEC oil cartel not to cut the production ceiling of 30 million barrels per day (bpd) in the face of an oversupply on world markets that has led to a 50 percent drop in oil prices since their peak in 2014.

Saudi oil minister Ali Al-Naimi has insisted that even if prices fall from their present \$60 per barrel to as low as \$20, the Kingdom will continue to pump at its current rate of about 9.5m bpd. This is despite the fact that according to the International Monetary Fund (IMF) the Saudi fiscal break-even price is more than \$90 a barrel. While the Saudi monarchy has tactical differences with the US, its decision was worked out in conjunction with Washington and is aimed at destabilising Russia and the Saudis' main regional rival, Iran.

Made up of 25,000 princes and princesses and their entourage, the House of Saud is almost entirely dependent on oil revenues, and its position is threatened

both internally and externally. The halving of oil prices led to a sharp and unexpected fall in government revenues in 2014. The government has had to abandon its 2011 promise to expand domestic expenditure. The 2015 budget maintains both domestic and foreign spending in the face of falling revenues, projecting a \$39 billion deficit, equivalent to 5.2 percent of GDP--the largest in the country's history. But that is optimistic, as oil prices are expected to fall further.

Due to its impact, the kingdom has now raised the cost of its oil sales to Asia in February. It will still sell its Arab Light grade for \$1.40 a barrel less than a regional average, but this is less of a discount than the \$2 a barrel discount in operation in January.

Public sector workers, who make up two thirds of the population, will see their wages slashed. Foreign currency reserves--estimated at \$750 billion--will be tapped. Those reserves are set to fall sharply, both because of falling oil prices and the reduction in exports as the country consumes more and more of its own oil, becoming a net importer by 2030.

This comes at a time when 40 percent of the population lives below the poverty line and 70 percent cannot afford to buy a home, the prerequisite for marriage. About 60 percent of the 19 million Saudis are 20 or younger, most with no hope of finding work. According to official statistics, 12 percent of men and 33 percent of women are unemployed. Most work is done by 8.5 million migrant workers, largely from South East Asia, who are forced to live and work in slave-like conditions away from their families for years at a time. Some of the most impoverished are the Shi'ites, 15 percent of the population, who live in the isolated and poverty-stricken but oil-rich east coast.

In 2011, following years of acute social tensions, mass protests erupted, with Shi'ites calling for an end

to the discrimination by the Sunni establishment. They demanded greater economic and political rights that extended far beyond specific Shi'ite grievances.

The government first sought to buy off dissent with a big expansion in expenditure on housing, education, health, salary increases for 2 million public sector employees, social security and studying overseas, as well as infrastructure projects. It also sought to create jobs by refusing work permits for migrant labour. But neither this nor the budget stimulus--to be curtailed in 2015--made any inroads on poverty and unemployment.

The government also initiated a brutal crackdown that has led to the deaths of at least 20 Shi'ites, the setting up of police checkpoints, an extra 60,000 security staff to guard key government installations, ever-increasing social control of all forms of dissent, including restrictions on social media, and all-encompassing anti-terrorism laws.

In addition to outlawing al-Qaeda, Hezbollah, ISIS and the al-Nusra Front as terrorist groups and carrying out arrest raids, the authorities criminalised any speech, activism or relations with international organisations that "defame" the country's reputation. Recently, two women drivers were sent for trial to an anti-terrorist court because of opinions expressed in tweets and social media.

Externally, Saudi Arabia has bankrolled counter-revolution throughout the region, providing military support and economic subsidies to bolster its beleaguered neighbours and shore up its own position at a cost of at least \$30 billion in 2014. With its big expansion in military spending--\$67 billion in 2013--Saudi Arabia now ranks fourth after the US, China and Russia in arms expenditure, up from seventh place in 2012.

It has sent troops to keep the Bahraini monarchy in power and it has provided financial aid to prop up Bahrain and the Sultanate of Oman. Bahrain has no oil resources and Oman's are declining.

Riyadh's funding of Islamist forces to topple the regime of President Bashar al-Assad in Syria and undermine the Shi'ite government in Iraq are part of attempts to roll back Iran's influence in the region. In relation to Syria, it set up joint operations in Turkey with Qatar and Jordan, channelled through Sa'ad Hariri's Future Movement in Lebanon, and conducted

joint air strikes with the US, Bahrain, the UAE and Jordan on targets in Syria. It agreed to host 7,000 Syrian fighters, to be trained with assistance from Pakistan, another beneficiary of Saudi largesse.

Saudi Arabia has been forced to provide extensive subsidies for the perennially bankrupt Jordan, a frontline state in the ongoing Syrian conflict now home to 650,000 Syrian refugees. Moreover, it pledged \$3 billion to buy French weaponry for the Lebanese army to fight the Hezbollah-led pro-Syrian regime forces.

The Saudi Kingdom sponsored the military coup in Egypt of Defence Minister Fattah Abdul al-Sisi that toppled the elected Muslim Brotherhood-led government of President Mohamed Morsi in July 2013. Since then, it has bankrolled al-Sisi's military dictatorship as part of its broader strategy of suppressing the Brotherhood throughout the Middle East and North Africa. To this end, Riyadh has encouraged both Egypt and the United Arab Emirates to back with military force the former Libyan general, Khalifa Hifter, who was close to the CIA. It has proved a costly and inconclusive venture that has further polarised the country and intensified the suffering of the Libyan people.

Riyadh has long subsidised the Yemeni government, which has been fighting both the Shi'ite Houthis that Riyadh views as Iran's proxy, and al-Qaeda forces. Last September, it lost control of its capital, Sana'a.



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