Saudi Arabia's Aggressive Oil Policy against Iran (2011-2016)

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Abstract:

Iran and Saudi Arabia have long been engaged in heated rivalry and conflict in the Middle East. These two regional powers are both major oil-exporting countries; in major foreign policy issues, therefore, oil is used as an important tool to pursue goals. Iran and Saudi Arabia have a long history of differences on oil policies, but one of the most severe differences emerged in 2011-2016, along with escalating tensions between the two countries in the region, which heavily shaped oil market trends in this period. In an attempt to analyze these oil market trends, the main question addressed in this article concerns Saudi Arabia's decisions to use oil as a weapon against Iran in 2011-2016. The article reveals that the perception of expanding Iranian influence in the Middle East drove Saudis to resort to oil as weapon against Iran in 2011-2016. However, restrictions on the use of this tool led Saudi Arabia to withdraw from most part of this policy, especially in the oil market. The article uses neoclassical realism approach and illustrates Saudis' direct and indirect use of oil weapon against Iran, and analyzes the outcomes of this offensive oil policy for the two countries in particular, and for the international oil market in general.

Keywords: Iran-Saudi Arabia, Middle East, Oil, Regional rivalry

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1. Introduction

The Iran–Saudi Arabia rivalry finds its roots in the ongoing struggle for regional influence between the Islamic Republic of Iran and the Kingdom of Saudi Arabia. These two countries have provided varying degrees of support to opposing sides in Middle East conflicts, including the civil wars in Syria, Yemen, Lebanon and Iraq. The intensity of this rivalry has varied over the years, but it has consistently been one of the most significant driving forces behind the politics of the Middle East, specifically around the Persian Gulf. Certain scholars have described this tension as a cold war (Pollack, 2016; Gauss III, 2015) because it has waged on multiple levels over geopolitical, economic, and sectarian influences in the region. In addition, the US support if Saudi Arabia and its allies, along with growing Russian support for Iran (mainly in the Syrian conflict) have drawn comparisons to the Cold War era.

Iran and Saudi Arabia have vied for supremacy within the Persian Gulf region over several decades. Iran's revolution in 1979 changed its interstate relations radically. At that time, there was a serious concern that Iran's revolution would cause a revolutionary wave in the region, which was manifested in the perceived Iranian influence in various states (Downs, 2012/3). These concerns, especially with regard to rivals such as Saudi Arabia, made the situation appear as the emergence of a new cold war between a revolutionary Iran and a conservative Saudi Arabia across the region. After the start of the Arab Spring in late 2010, Riyadh officials thought Iran was in the winning position in the existing Cold War. In particular, the fall of the Mubarak regime during the Arab Spring was another indication of the failure of Saudis' efforts to confront Iran's influence in the region (Gauss, 2014, p. 1). This perceived threat continued throughout the following years, as Saudis incurred other setbacks in Syria and Yemen against Iran's allied forces, which could be viewed as the main drive of rivalry between Iran and Saudi Arabia in the region.

Saudis' defensive position against threatening events in the region translated into an offensive oil policy during the years 2011-2016 for curbing what Saudi leadership saw as mounting Iranian power in the neighboring region. Along with this development, bitter differences emerged between these two major oil-rich countries over oil policies in the OPEC, which heavily affected OPEC and oil prices in the market. In this way, Iran and Saudi Arabia entered a period of hostile conflicts in oil policy, which engaged the two countries in price war, difference over output policy in OPEC and other fierce oil policies such as stealing rival market share and customers in the market.

This article studies Iran and Saudi Arabia's rivalry in the 2011-2016 years form an economic point of view; in particular, the use of oil as a weapon by Saudi Arabia during escalating regional conflict between these two states will be discussed and analyzed. Natural resources are generally considered to be the main sources of power at the international arena. In the Middle East, a number of countries have enormous reserves of energy, and given the importance of these reserves in countries such as Iran and Saudi Arabia, oil reserves are among the main sources of power and influence at both regional and global arenas.

Given Saudi Arabia's superior position over Iran in producing and exporting oil, we can naturally expect that Saudis are more likely to use oil as a weapon for regulating and/or enforcing their foreign policy in conflicts between the two countries. Saudi Arabia is more dependent on oil revenues compared to Iran. The oil and gas sectors account for about 50 percent of the Kingdom's gross domestic product, and about 85 percent of its export earnings (Dagoumas et al., 2017, p. 3). Therefore, the main question addressed in this article concerns the reasons for which Saudi Arabia resorted to use oil as a weapon against Iran in the years 2011-2016. The main argument of the article is that the perception of expanding Iranian influence in the Middle East overwhelmingly shaped Saudis' understandings of the region in 2011-2016 and drove them to use oil as a weapon against Iran. However, the limits of using this tool lead to mixed results for Saudis and led the country to withdraw from an important part of this policy especially in the oil market.

The article applies neoclassical realism theory to investigate the confrontational relationship between Iran and Saudi Arabia, especially in the post-Islamic Awakening era after 2011. The theory of neoclassical realism, with its emphasis on state's leadership perceptions of threats and opportunities, can be useful for explaining the Saudis' perceptions about Iran's rising power in the region. This theory is also useful for studying Saudi leadership calculations in resorting to oil as a weapon for curbing Iran's influence in the Middle East.

After explaining the theoretical approach, the article first explores the historical dimensions and experiences of using oil as a tool of foreign policy in oil-exporting countries. It then analyzes the paper's hypothesis and examines Saudi Arabia's aggressive oil policy against Iran in four areas:

1- Saudi Arabia's attempts to drop oil prices

2- Saudi Arabia's oil money-based coalitions against Iran

3- Saudi Arabia's support of West's Oil Sanctions Policy against Iran

4- Saudi Arabia's efforts to prevent Iran comeback to the oil market after the Joint Comprehensive Plan of Action (JCPOA) regarding Iran's nuclear actions.

Finally, the reasons for Saudi Arabia's set back in this aggressive policy, especially in the oil market and the price war against Iran will be examined based on the theoretical approach of the article.

2. Conceptual Framework

Neoclassical realism approach could be used to investigate the nature of rivalry between Iran and Saudi Arabia in the region, especially for understanding the motives of Saudis for restoring to oil weapon against Iran, while recognizing the limits of this tool and the probable significant costs for themselves, as once experienced in the 1986 oil glut.

Neoclassical realism starts with the assumption that states are rational actors. "Neoclassical realism tries to explain the outcomes of state interactions" (Rose, 1998, p. 152). "Studying the effect of relative power on foreign policy is the core subject of neoclassical realism. The principal factor of foreign policy analysis for neoclassical realism is decision-maker's understanding of systemic pressures that shape their decisions. The second intervening variable in neoclassical realism is the capability or relative power of states in relation with other states. In other words, though neoclassical realists are seeking systemic analysis, they do it through analyzing the relative power of each state and the attitudes of decision-makers towards the situation" (Dehghani Firoozabadi & Zare Ashkezari, 2016, p. 96). Therefore, this theory can be used for explaining Iran-Saudi Arabia rivalry in the region with a focus on the rational calculations of the two countries in the rivalry game.

This article focuses on Saudi Arabia's use of oil (as Riyadh's relative economic power) as a tool to curb Iran's influence in the region.

An important aspect of the neoclassical theory is that it stress on the fact that countries give perceptions a high importance when shaping foreign policies. Neoclassical realism focuses on the behavior of individual states and individuals within the states. It also takes into account the international environment and the international constraints in the shaping of foreign policy. One of the most important features of neoclassical realism is that it combines structural and domestic variables to explain state behaviors. Neoclassical realists respond to the uncertainties of international anarchy through creating policies to control and shape the international environment. "Under the neoclassical realist theory, an analyst wanting to understand any case needs to do justice to the full complexity of the causal chain linking relative material power with foreign policy outputs" (Rose, 1998, p. 149).

As stated by Schweller, states have complex domestic political processes, in which they direct and redirect policy outcomes in response to external forces. One type of external force could be a shift or perceived shift in relative power; this leads to the creation of policy outcomes through the domestic political processes specific to the state. "Systematic pressures are filtered through intervening domestic variables to produce different foreign policy behaviors" (Schweller, 2008, p. 83). This approach is more interested in the intensity of a threat, rather than where it comes from, and emphasizes the perception of the decision-making elite of the threat (Hart, 2004, p. 84). According to this argument, it can be assumed that Iran's rising power in the region after the US invasion of Iraq, and especially after the outset of the Islamic awakening (Arab Spring) in the Arab countries of the Middle East, was perceived by Saudis as a mounting threat that undermined their influence in the region.

The neoclassical realist theory also seeks to explain the reason for which different states pursue different paths at different times to pursue particular strategies in foreign policy. This happens because states react differently to similar systematic pressures and opportunities, and this leads to reactions that are more motivated by domestic factors rather than systemic-level factors. According to this argument, Hinnebusch (2002) has tried to introduce the most appropriate conceptual framework for the study of Middle East foreign policies in order to account for all possible influences on foreign policy. According to his arguments, it is necessary to integrate the domestic, regional and international environments into the same conceptual framework, in a necessarily "complex model of international politics" in order to identify the potential factors, drivers and determinants in foreign policies. The overall balance may involve: "economic needs, geopolitical imperatives, domestic opinion, and state capabilities" (Hinnebusch, 2002, p. 15).

This approach is expected to be especially useful in investigating Saudi Arabia's behavior in regional rivalry with Iran in the years 2011-2016. It especially focuses on Saudis' perceptions of vulnerability from terrible developments in neighboring region. The Saudi Arabia's response to the Arab Uprisings, which outburst in 2011, reflected the shock that the Saudis felt with the loss of a vital regional ally, President Mubarak in Egypt. In this crisis, Saudi Arabia lost its faith and trust in the US, which forced Riyadh to establish a new modus operandi in its foreign policy.

On this basis, it can be argued that Riyadh leaders felt that the post-occupation Iraqi developments, and in particular the popular uprisings in Arab countries, had led to a shift in the power in the region. This shift in power can be considered as a systemic pressure based on the neoclassical realist approach. Here, the perceived threat of Saudi leaders from these developments is an important mediating variable that greatly affects their decision-making mode in dealing with new situations. In such a situation, the Saudi leaders that are deeply concerned about the changes in their neighboring region decide to resort to a tool to deal with the threat, which themselves are aware of the possible costs.

In this new era of mounting threats, Saudis attempted to use their economic muscle in the Middle East to limit the Iranian influence in the region. The article illustrates that Saudi Arabia used this muscle in 2011-2016 to isolate Iran internationally, and as a result, tried to influence Iran's foreign and nuclear policy in an orchestrated effort, which could be categorized in four areas:

1- Trying to drop oil prices in the world oil market for exerting pressure on Iran's state budget and economy, which are heavily dependent on oil revenues

2- Building a coalition against Iran in Yemen, Syria, and on the event of the breaking diplomatic ties with its rival in 2016, especially with resort to significant reserves of kingdom petro dollars

3- Going along with international pressures against the Islamic Republic of Iran, by especially assuring to compensate the lack of the Iranian oil due to US and EU sanctions against Iran's energy and financial sectors, which came to force in early 2012

4- Exerting pressure to prevent Iran's comeback to the oil market after the JCPOA and Iran's Nuclear Deal on July 14, 2015.

It should be noted that Saudi Arabia has a better position in any oil competition between Iran and the Kingdom, which is why Riyadh's incentive to use oil against its rival is much higher than Iran. Iran is a major oil producer and oil exporter, but it cannot compete with Saudi Arabia's considerable oil reserves, a total oil production capacity of about 11 million b/d (about three times Iran's output capacity), and a history of about 2.5 million b/d of spare capacity. Here the article focuses on Saudi Arabia's aggressive oil policy against Iran in these areas:

1- The use of oil pricing (within OPEC) and unilateral supply policies as a weapon against Iran.

2- The use of its vast material resources (petrodollars reserves) not only as a weapon against oil price sensitive adversary (Iran), but also as simultaneously using the same resources to increase ties with strategic allies in the region through making coalitions against Iran and its allies in the Middle East.

As will be explained later, Saudis used oil weapon with rather success against their rival, Iran, yet the significant costs of this oil policy for themselves propelled them for a dramatic change, especially in oil glut policy and confronting Iran in OPEC in late 2016.

3. Oil as a Tool in Foreign Policy

The expression "oil weapon" recalls the October Oil Embargo of 1973, when Saudis and other Arab oil exporters embargoed the United States and its allies for their support of Israel. However, various countries have used oil as a political weapon in recent history. The US has historically imposed a greater number of oil embargoes than any other nation. In fact, The US can be called the first nation that resorted to oil as a weapon when Roosevelt administration declared a partial embargo of US shipments of oil, gasoline, and metals on Japan in 1940. The US then continued using this tool against other nations such as the Soviet Union in the 1960s, and South Africa, Burma, Serbia, Haiti, Libya, Iraq, Iran, and Sudan in the following six decades (Alhajji, 2005, p. 2). Oil embargoes are not confined to Americans or Saudis. Calls for oil embargoes have been on the rise in recent decades. After the 1979 revolution, Iran called on Islamic states to halt oil exports to pressure Western countries to force Israel to pull out of Palestinian lands, and Iraq repeated this call after Israel's violent incursion into the Jenin refugee camp in March 2002 (Associated Press, 2002, Mar. 4).

Using oil as a tool in foreign policy in not confined to oil embargo. Oil exporting countries have usually used petro dollars in pursuit of their goals in neighboring region, as stated by Sonmez and Cobanoglu (2016, p. 81):

> States usually make use of non-military methods to increase their economic and political power to shape foreign policies of other states in line with their own interests. One of the most widespread forms of these methods is the use of economic factors as a foreign policy tool. Sometimes oil rich countries attempt to shape foreign policies of neighboring nonoil-rich countries through the method of foreign assistance. And sometimes they punish these countries whose foreign policies they disturbing by activating such tools as embargo and boycott. Thus, it becomes possible for energy exporting countries to have an impact on other dependent states through certain use of energy or what has called as petro-dollars in foreign policy.

Energy resources have a unique place among the economic factors that are used as a foreign policy tool. Oil and gas resources have strategic significance and are found only in a limited number of countries in the world. As a result, countries that have rich hydrocarbon resources are able to transform these resources into a foreign policy tool. Table 1 illustrates data for three oil-rich countries' foreign aid. Oil-rich Arab states are among the most prolific donors of foreign aid in the world. Kuwait, Saudi Arabia, and the United Arab Emirates give the most bilateral assistance outside of Development Assistance Committee (DAC) members (Nielso et al., 2010, p. 6). Although foreign aid serves several purposes, the primary reason for aid allocations or aid restrictions could be to pursue foreign policy goals. In fact, strategic and commercial interests of donor countries are the driving force behind most aid programs.

Table 1: G of Arab aid as percentage of GNI, 1975-2007. Sourse: Shushan & Marcoux, 2012, p. 39.

Country	1975-79	1980-84	1985-89	1990-94	1995-99	2000-04	2005-07
Kuwait	1.80%	1.66%	1.02%	1.84%	1.61%	1.09%	0.56%
Saudi Arabia	0.50%	0.20%	0.21%	0.12%	0.28%	0.12%	0.07%
UAE	0.26%	0.59%	0.12%	n/a	0.27%	0.24%	n/a

Saudi Arabia, during the Cold War, followed an anti-Communist and anti- Arab nationalist policy. After the first oil shock in 1973, which quadruped oil prices in the world oil market, the foreign currency of oil exporting countries increased dramatically; this worked to become a major tool in their foreign policy. During the Reagan administration, Saudi Arabia effectively used oil weapon against communism. "It was not just the Afghan Mujahideen who benefited, fatefully as we well know, from Saudi largesse, but America's proxy fighters on other cold-war fronts, from Angola to Central America to the Horn of Africa" (Ricklefs, 2001, p. 12).

According to classified information and documents leaked to public, oil weapon has been used against the Soviet Union in 1980s by the US and Saudi leaders. In the 1980s, certain petroleum exporting countries such as Saudi Arabia pumped an excessive amount of oil and thus caused a significant decrease in oil prices in the global markets. "One of the reasons that the Soviet economy went bankrupt in the Gorbachev period was argued to be this decrease in the oil prices. In 1985, the oil prices in world markets reached to the lowest levels since the Second World War" (Sonmez & Cobanoglu, 2016, p. 4).

Downing oil prices in 1986 also helped Saudi Arabia and the US to exert pressure on Iran to end the war with Iraq, and to curb Gaddafi's oil revenues, which were used to feed "anti-imperialist" liberation movements. This policy was only possible with the help of Saudi overcapacity. Using the pretext of defending a "market share" instead of a policy of defending "oil prices", Saudi Arabia suddenly increased its oil production, crumbling the market, and lowering oil prices (Hassantash, 2014, p. 9). In periods of shortage during the past years, such as during the US led invasion to Iraq in 2003 and Venezuela's 2002 oil strike, the Saudis have increased oil production to keep prices stable. This short review of using oil as a weapon illustrates the fact that oil-rich countries, especially countries such as Saudi Arabia with considerable oil reserves and remarkable amounts of oil production and spare capacity, can use oil as an important tool to pursue foreign policy goals.

3.1. Analyzing the hypothesis

3.1.1. Saudi Arabia attempts to drop oil prices:

Iran and Saudi Arabia have a long history of differences about oil prices; however, one of most severe differences appeared in the 2011 OPEC meeting. Iran, which held the revolving OPEC presidency that year, blocked Saudi efforts at the group's meeting in Vienna to raise official production quotas. Certain commenters signaled this as a symbolic slap at Saudi Arabia in the OPEC (Krauss, 2011). After the meeting, Saudi Arabia announced it would increase its oil production. *Saudi al-Hayat* newspaper reported that oil officials have taken the decision to increase production to 10 million barrels in July, up 9.3 million barrels, with the largest increase in output going to China and other Asian economies (Krauss, 2011). In this way, Saudis proved that they could take even unilateral actions in pursuit of their oil policy in prohibiting further increases in oil prices.

By this time, tensions were running high between Saudi Arabia and Iran, as they competed to influence political tides convulsing the region, particularly in Bahrain, where more than 1,000 Saudi troops were deployed in an attempt to bolster a Sunni monarchy against the majority Shia protesters who were supported, at least verbally, by Iran. However, this Saudi attempt for downing oil prices in the market was not fruitful until 2014 because of escalating Libya crisis in 2012 and the shortage of oil in an environment of rising demand in the market.

Numerous facts indicate Saudis' angers against Iran's mounting power in the region, as well as their willingness to resort to oil weapon for the containment of Islamic Republic of Iran through downing oil prices. Saudi Prince Turki Al-Faisal claimed, in a meeting with American and British official forces, that Riyadh does not want Tehran to acquire nuclear weapons, and as a result, the Saudis are willing to increase their oil output to bankrupt Iran. He claimed that the Saudis could almost immediately replace all Iranian oil production (Shimkus, 2011). Saudi Arabia led OPEC in November 2014 to defend market share, in an environment of downing oil prices in the market, notably against US shale oil producers. A month after the change in policy, Saudi oil minister Ali al-Naimi said the rivals will soon or late face financial problems, and that the kingdom had the "ability to hold out" for a long time (Blas, 2016).

It is important to note that at the time, Riyadh could have played the role of a 'swing producer', as it had in the past, and by significantly reducing oil production, it would prevent a sharp decline in oil prices in the market. However, Saudis did the opposite and increased their production, which accelerated oil downturn in the market. The table below illustrates that Saudi Arabia has increased its oil production in 2014 and 2015 in an attempt to decrease worldwide oil prices.

table 2: Saudi Arabia oil output and oil prices. sourse: Centre for Energy Economics Research, 2016

Saudi oil production	Year (Thousand barrels daily)	Oil price (Brent $/bbl)
2011	11144	111.26
2012	11635	111.67
2013	11393	108.66
2014	11505	98.95
2015	12014	52.39

As illustrated in the table above, Saudis played in important role in decreasing oil prices in order to damage their geopolitical rival, Iran, and Bashar al-Assad's great power ally, Russia. In 2014, the rise of North American tight oil production and the slowing growth rate of Chinese oil consumption helped downturn oil prices in the markets; however, one cannot deny Saudis' attempt to create a glut in the market by increasing the production. There is no doubt that Saudis would like to see the power of Iran and Russia curtailed by decreasing oil prices. This policy had significant costs for themselves, but Riyadh, "with over $700 billion foreign reserves, was much better able to ride out a period of low oil prices than was Moscow or Tehran" (Gause III, 2015, p. 5). This low price environment had another outcome for Saudis. High cost oil producers, especially shale oil producers in the US in this depressed market situation would experience a reduction in investment, and thus another rival would have to give up.

Iran and Russia's leaders at this time condemned Saudi Arabia's oil market glut policy, which could be considered as hostile Saudi actions in the oil market. The speaker of Iran's parliament, Ali Larijani, as an implicit warning to Saudi Arabia, announced in December 2014 that Iran "will not forget which countries schemed to lower the price of oil" (Dettmer, 2015). Iranian President Hassan Rouhani called the fall in oil prices a "political conspiracy by certain countries against the interests of the region" (Balali, 2014). Similar charges echoed in Russia against Saudi Arabia (Herszenhorn, 2014). As a result of this Saudi oil glut policy, oil prices spiraled lower to $45 a barrel in 2016 compared to about $110 in 2011.

3.1.2. Saudi Arabia's Oil Money-based Coalition against Iran

As mentioned above, using oil as a tool in foreign policy in not confined in oil embargo or oil price wars against enemies. Oil exporting countries have often used petro dollars in pursuit of their goals in neighboring regions. In a situation of mounting threat, from the perspective of the neoclassical realism approach, Riyadh leaders decided to confront this threat by creating a set of regional alliances. Naturally, in such circumstances, Riyadh leaders should provide enough incentives to encourage other countries to join such coalitions. Using petro dollars naturally helps to achieve this goal. In this section, the use of this tool in shaping alliances to address the influence of Iran in Syria and Yemen will be explored.

According to *The New York Times*, "Saudi Arabia has financed a large purchase of infantry weapons, such as Yugoslav-made recoilless guns and the M79 Osa, an anti-tank weapon, from Croatia via shipments shuttled through Jordan". (Chivers & Schmitt, 2013). These weapons began reaching rebels in December of 2012, which allowed them small tactical gains against the Syrian army (Chivers & Schmitt, 2013).

The Financial Times reported in May 2013 that Saudi Arabia was becoming a larger provider of arms to the Syrian rebels (Khalaf & Smith, 2013). Bashar al-Assad, the Syrian president, described Saudi Arabia as the major supporter of terrorists, "leading the most extensive operation of direct sabotage against all the Arab world". He added, "Saudi Arabia and other countries are strong backers of terrorism. They have dispatched tens of thousands of *takfiris* to the country, and Saudi Arabia is paying up to $2,000 as a monthly salary to all those who take up arms on their side" (Raad, 2013).

In early 2016, the Saudis announced the formation of a military alliance between Muslim countries to combat international terrorism. It is reported that around 30 Muslim countries (all of them Sunni majority countries) accepted to join the alliance. This coalition was viewed by Russia and Iran as a coalition formed with the aim of strengthening Saudi leadership and countering Iran and Russia's efforts in the region (Doubine et al., 2015).

Saudi Arabia's military intervention in Yemen was launched in 2015, through a coalition of nine African and Middle Eastern countries, to influence the outcome of the Yemeni Civil War in favour of the government of President Abdrabbuh Mansur Hadi. The intervention initially consisted of a bombing campaign on Houthi Rebels and later progressed to a naval blockade and the deployment of ground forces into Yemen.

Air and ground forces from Egypt, Morocco, Jordan, Sudan, the United Arab Emirates, Kuwait, Qatar, Bahrain, and an American private military called Academi took part in the operation. Djibouti, Eritrea, and Somalia made their airspace, territorial waters, and military bases available to the coalition (The Guardian, 2016, Jan. 15). As mentioned above, at least a significant part of this Saudi Arabian coalition was formed through Saudi petro dollars, for example, *Dawn* newspaper reprted that "Senegal's support for the ongoing Saudi war on Yemen is only for hard petrodollars" (Ba, 2015).

The Saudis war in Yemen cost \$ 5.3 billion alone in the 2015 defense budget (The Times of Israel*,* 2015). In its 2016 report, Stockholm International Peace Research Institute (SIPRI), as an independent resource on global security, reveald that from 2011-2015, Saudi arms imports increased to 275% as compared to 2006-2010 (SIPRI, 2016). "Saudi defense budget had been rising by 19 % since the Arab up springs of 2011. Beyond budget deficit, Yemen war also have unprecedented impacts on Saudi foreign reserves and during 2015 Saudi foreign reserves depleted from $732 billion to $623 billion in less than 12 months” (Al-Khatteeb, 2015).

As war costs increased in Yemen, Saudis started to sell their assets in European markets. *Reuters* has estimated that "Saudi Arabia is spending $175 million per month for bombings in Yemen and additional $500 million for ground incursions. These unexpected expenditures forced Riyadh to sell $1.2 billion of its $9.2 billion holdings in European equities" (Al Naseer, 2015).

Saudi Arabia cut diplomatic relations with Iran in January 2016 as a sharp escalation of tensions between the two regional foes following the execution of the Saudi Shia cleric Sheikh Nimr al-Nimr. The move came after two days of outrage among Shia communities across the Middle East and in south Asia because of the death of Nimr, as well as Iranian protesters’ storming of the Saudi Embassy. Following Saudi Arabia, Bahrain, Somalia and Sudan, also cut diplomatic ties with Iran. It was later revealed that finacial motives had been behind poor countries such as Sudan and Somalia’s diplomatic cuts with Iran.

According to *Reuters*, Somalia received “a pledge of aid for $50 million from Saudi Arabia on the same day it announced it was cutting ties with Saudi rival Iran” (Trackpersia, 2016). This aid could be considered as a mark of patronage used by the Saudis to shore up regional support against Iran. *Reuters* referred to a document from the Saudi embassy in Nairobi to the Somali embassy in the Kenyan capital, which indicated “Saudi pledging $20 million in budget support and another $30 million for investment in Somalia, a nation trying to rebuild after two decades of war” (Reuters, 2016, Jan. 17).

The Guardian reported that Sudan’s support of Saudi diplomatic cut off with Iran has been due to Billions in investment in the kingdom of Sudan. According to this report, “with Khartoum hungry for Saudi investment, the move has been characterized by Sudanese analysts as motivated by the promise of financial reward” (The Guardian, 2016 Jan. 12). According to *The Guardian*, in August 2016, Sudan received a deposit of one billion dollars in its central bank from Saudi Arabia, due to Sudan’s firmer commitment to Riyadh and its Persian Gulf allies in March 2016, when it joined the coalition in Yemen against Shia Houthi rebels (The Guardian, 2016 Jan. 12).

3.1.3. Saudi Arabia’s Support of West's Oil Sanctions Policy against Iran

From the viewpoint of Western countries, Saudi Arabia’s role in enforcing oil sanction against Iran was important. Cooperation from this country could greatly decrease possible costs of international sanctions against Iranian crude exports. Implicit announcements of Saudi authorities indicate the Kingdom’s willingness to exert more pressure on Iran. Riyadh officially announced that the country does not intend to replace Iran's oil in global markets, but at the same time, declared that the kingdom is completely ready to supply market needs after sanctions against Iran's oil sector enter into force.

Saudi oil minister Ali Naimi confirmed in March 2012, that his country "will use spare production capacity to supply the oil market with any additional required volumes" (Naimi, 2012). One possible scenario that western countries considered for decreasing possible cost of sanctions against Iran was the ability of Saudi Arabia to steal Iran's market share by offering Tehran's customers Saudi crude. *Reuters* reported in February 2012 that Saudi Arabia has increased oil shipment to China to replace loss of Iran's oil shipment due to sanctions. China was the top buyer of Iranian oil, taking around 20 percent of its total exports, but since January 2012, it cut purchases by around 285,000 barrels per day (bpd), or just over half of the total daily amount it imported in 2011. A source familiar with the matter, who did not agree to be identified by name, told *Reuters* "the Kingdom had been supplying about an extra 200,000 bpd to China since November" (Hua & Lawler, 2012).

A published report on this matter calculated that a mere 10 percent shift in market share is equivalent to a revenue loss for Iran of about a billion dollars a month. This report therefore concluded that the Saudis' strategy to eliminate Iran's market share could probably be more successful in changing Iran's position, than any US and European financial sanctions (Stratfor Worldview, 2012). "On the other hand, some analysts believe that Saudi Arabia's positive approach to anti-Iran sanctions was the main factor which prompted certain customers of the Iranian crude oil, including Japan and South Korea to announce that they will reduce oil imports from Iran" (Karami, 2012) . South Korea and Japan, in an attempt to accommodate Washington's demands about Anti-Iranian sanctions, announced in January 2012 that they would reduce oil purchase from Iran. At that time, China, Japan, India and South Korea together imported more than 60 percent of Iranian oil exports. Saudi Arabia, once again stated that it would increase production if needed to make up for any decline in exports from Iran. Sadad Ibrahim Al-Husseini, former head of exploration and production at Saudi Aramco, announced, "There is enough supply from other OPEC countries" to compensate for losses of Iranian supplies (Bradsher & Krauss, 2012).

The above facts illustrate Saudi Arabia's role in supporting anti-Iran sanctions. "Of course, Saudi officials repeatedly alleged that the increase in their country's oil output is only meant to make up for the shortage of oil in the market and is by no means related to any policy for confrontation with Iran" (Karami, 2012). However, Saudis, in the event of the West's oil sanction against Iran, frequently announced that if Iran's oil exports fall, they would supply the market with enough oil. "Saudi Arabia is, thus, missioned to assure countries which import oil from Iran that when international ban on buying Iranian oil enters into force, Riyadh will supply them with enough oil. The main factor which can guarantee the success of Saudi Arabia's policy of supporting West's anti-Iranian sanctions is cooperation from such countries as India and China as well as other states which are major customers of the Iranian crude oil" (Karami, 2012).

3.1.4. Saudis' Efforts to Prevent Iran Comeback to the Oil Market after the JCPOA Agreement

After the JCPOA Agreement with world powers in 2015, Iran tried to resume crude exports to Europe and other destinations. To prevent or slow down these efforts, Saudis took the following steps:

3.1.4.1. Making logistical obstacles for Iran's oil export

Saudi Arabia banned vessels that transported Iranian crude oil from entering their waters. According to the *Financial Times*, "part of the slow increase in Iran oil exports to Europe has been the lack of access for Iran to facilities operated by the Arab Petroleum Pipeline Company, known as SUMED. Before the imposition of sanctions

Iran used to send crude from the Red Sea to the Mediterranean on the company's lines" (Raval, 2016).

3.1.4.2. Trying to prevent Iran's increase oil output through freeze deal

Saudi Arabia, Qatar, Venezuela and non-OPEC Russia agreed on February of 2016 to freeze output at January levels in a delayed action for preventing oil price downturn in the market. Riyadh asked Iran to join this agreement, but Iran announced that it would continue increasing its oil output to levels held before the 2012 imposed trade sanctions. Saudi Arabia's Deputy Crown Prince Mohammed Bin Salman vetoed the deal because of Iran's refusal to cooperate. Bin Salman, Saudi's defense minister, suggested that a broader anti-Iran posture was a key factor in this decision (The Guardian, 2016, Feb. 20)

Saudis' insistence for joining Iran to the freeze deal could be interpreted as another step by the Kingdom for preventing Iran's comeback to the oil market after the Nuclear Deal. "Russian oil minister Alexander Novak called the Saudi demand "unreasonable" and said he was disappointed as he had come to Doha under the impression that all sides would sign the deal instead of debating it" (Gamal & Shamseddine, 2016). In this scenario, Saudis threatened to raise their production to 11 million barrels per day and even 12 million BOPD, bringing oil prices down, and to withdraw from the negotiations (Oil and Gas 360, 2016). The threat was issued after Iran repeatedly refused to freeze its output, the same position it held the last time OPEC tried to negotiate a production freeze. Rhetoric between the two countries became increasingly aggressive; the Managing Director of the National Iranian Oil Company (NIOC) Ali Kardor said, "Working in oil industry is like operating at war fronts and we have to preserve our trenches by raising our production capacity as much as we can. The next OPEC meeting is near and we will never cease to recapture our quota in the organization" (Oil and Gas 360, 2016).

3.1.4.3. Preventing Iran from retrieval of its oil customers

By the end of December 2015, Saudi Oil Minister Ali al-Naimi stated, "we no longer limit production. If there is demand, we will respond. We have the capacity to respond to demand" (Al Omran & Said, 2015). This declaration, according to oil market analysts, meant that Saudi Arabia was not going to let Iran increase its oil exports on its own after the Nuclear Deal. This action could be seen as a designed policy to sabotage Iran's oil comeback. Saudis, in this line, cut the price of their oil exports for February delivery to European customers, as well the United States and the Middle East. Saudi Aramco announced in February 2015 that the price of Arab Light crude for the north-west European market was cut by $0.60 a barrel from January to $4.85 a barrel below the benchmark price. Europe was a traditional market for Iranian oil before international sanctions were imposed on the Iran in 2012 over its nuclear program (Reuters, 2015).

Alongside this price war against Iran, Saudi Arabia raised its oil shipments to Iran's main oil customers in an attempt to prevent Iran from retrieval of its oil customers. "Saudi shipments of oil into China jumped by 36% in February 2015 to the highest level in at least three years, according to Clipper Data, a firm that tracks global crude shipments. The shipments accounted for a 75% increase in Chinese imports of Saudi crude from January" (Egan, 2016). The timing of this shift is very important because Iran and the world powers were on the verge of signing the Nuclear Deal, which was announced on July 14, 2015.

However, despite all the measures taken by Riyadh to prevent Iran's comeback to the oil market after the Nuclear Deal, "Iran reached a record high in oil sales by deploying 2.442 million barrels of oil per day to global markets, marking an unprecedented figure in the past two decades. Moreover, Iran managed to find a place in emerging markets like Poland, Hungary as well as some states in the Eastern Bloc of Europe" (Durden & Hedge, 2016).

3.1.4.4. Saudi Arabia revision to oil glut policy

OPEC's fourteen oil producing nations agreed on September 2016 to cut their oil output in an effort to bolster falling oil prices, marking "the first time the Organization of the Petroleum Exporting Countries decided to cut production since the last oil price slump during the financial crisis eight years ago" (Krauss & Reed, 2016). This agreement was finalized in the November 2016 OPEC meeting, through which "Saudi Arabia took the lion's share of cuts by reducing output by almost 0.5 million bpd to 10.06 million bpd. Its Gulf OPEC allies - the United Arab Emirates, Kuwait and Qatar accepted to cut by a total 0.3 million bpd" (Reuters, 2016, Dec. 1).

OPEC announced that it would exclude Iran, Libya and Nigeria from cuts as the production of these countries has been disrupted due to unrest and sanctions. Oil market analysts named the September agreement a victory for Iran (Gamal & Lawler, 2016), because Iran "has long argued that it wanted to raise production to regain market share lost under Western sanctions" (Gamal & Lawler, 2016), when Saudi Arabia increased output. Saudi Arabia, before this agreement, changed its stance about Iran's freezing output.

The concessions offered by Saudi Arabia in this deal to limit the globe's oil supply illustrate the fact that Riyadh was more harmed by its own oil glut policy than Iran. As mentioned above, Saudis decided in November 2014 to allow an oversupplied oil market to balance on its own and they even increased oil output, which resulted in further decrease in oil price, which reached to nearly 60 percent below their 2014 peak. Yet, the cost of this policy for Saudi Arabia appeared as significant even though they weakened rivals such as Iran. Saudi Arabia's foreign exchange reserves fell down by 20 percent over the 2014-2016 and reached to $587 billion according to IMF data. The Kingdom therefore announced that it would cut ministers' pay by 20 percent and pare perks for public sector employees, who make up two-thirds of the country's workforce (DiChristopher, 2016).

As illustrated in the chart below, Saudi foreign reserves dropped by a third from a peak of more than $730 billion in 2014 after the plunge in oil prices. This significant decrease prompted the IMF to warn that the Kingdom may run out of financial assets needed to support spending within five years (Shahine, 2017).

es

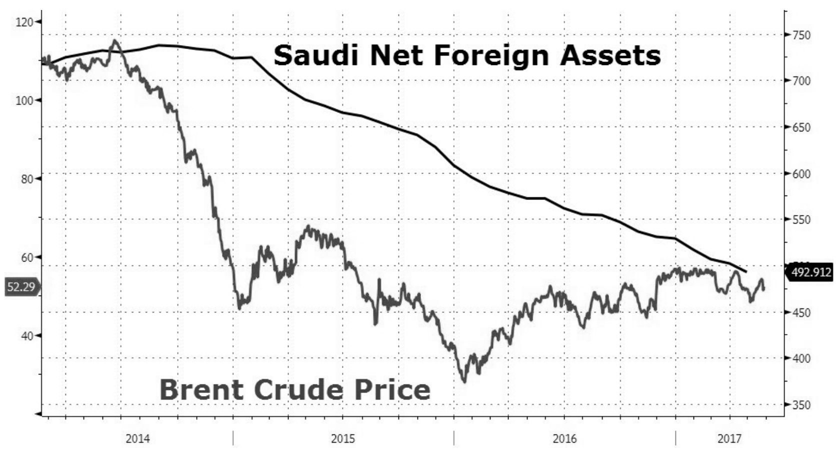

figure 3: Dereasing trend of Saudi Arabia foreign assets alongside oil falling trend. SOURCE: Shahine, 2017

4. Concluding remarks

Saudi Arabia's oil policy in 2011-2016 could be viewed as a good example of resorting to oil weapon against a regional rival (Iran) by a major oil producer in the market. The confrontation between Iran and Saudi Arabia is an evidence of the limits and opportunities of the use of oil as a tool to pursue goals in foreign policy. The neoclassical realism approach explains why Riyadh leaders resorted to oil weapon against their rival at that time. As mentioned above, Saudis considered the use of oil weapon against Iran in a circumstance of mounting threat in neighboring region. Thus, it can be concluded that the systemic pressures according to their perception of shift in power in the region, pushed the Saudis to use oil weapon to rollback Iran's increasing influence in the region. The Saudis believed that international sanctions and pressure on Iran could help the effectiveness of this policy against their regional rival. In this line, Riyadh obviously supported international sanctions against Iran and tried to increase the pressures of sanctions against its rival in crucial areas such as the oil market. As expected, Saudi Arabia extensively used its petro dollars to strengthen its anti-Iranian coalition in Syria and Yemen; even after the international climate changed against Iran through the signing of the Nuclear Deal, Riyadh leaders tried to prevent Iran's successful return to the oil market.

Based on the neoclassical realism approach, in addition to systemic pressures, the calculations and perceptions of leaders act as an important mediator in the decision-making process of countries' foreign policy. Therefore, Saudi leaders' calculations on opportunities and costs of using oil weapon against their rival can be used to explain the reasons for which they ended this policy in 2016.

Saudi Arabia successfully took over the main share of Iran oil market by exploiting turbulent conditions, which were caused because of the West's oil sanctions against its major rival in the region. Riyadh also had a main role in oil downturn in the market, which heavily decreased Iran's oil revenues especially in 2014-2016. However, this policy of resorting to oil weapon against the rival proved to be very expensive for the Kingdom itself, as it discussed above. Additionally, Riyadh's reliance on expending oil money through various coalition for curbing Iran's influence in the Middle East mostly appeared unsuccessful. In fact, the indirect use of oil by Saudis to pursuit foreign policy goals against Iran curtailed especially in Syria and Yemen. As a result, as the Saudis concluded that the cost of using oil weapons on the market is increasing sharply for themself, they resorted to revising their policy.

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