

# **Oil, Economics, and Geopolitics: Relations between Saudi Arabia and UAE**

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**Disagreements between Saudi Arabia and the United Arab Emirates, two countries regarded as allies cooperating in a number of theaters on various matters over the past decade, have escalated recently. The conflicting interests on oil output limits compound existing disputes involving considerations of prestige and status in the regional and international theaters. Additional elements undermine the image of a united regional front against Iran, and could have a negative impact on regional initiatives toward normalization with Israel. It is therefore important for Israel to conduct covert diplomacy and maintain separate channels with the two countries following the Abraham Accords in order to avoid the appearance of taking sides in their disputes.**

Disagreements between Saudi Arabia and United Arab Emirates (UAE), two countries regarded as close allies cooperating in a number of theaters on various matters over the past decade, have escalated recently. The conflicting interests on oil output compound existing disputes involving considerations of prestige and status in the regional and international theaters. This article examines the significance of the disputes between Saudi Arabia and the UAE, key countries in Israel's regional strategy, believed to be cooperating publicly and clandestinely with Israel in a number of spheres.

## **Oil and COVID-19**

The COVID-19 crisis hurt the Saudi and UAE economies, which according to the International Monetary Fund, shrank by 4.1 percent and 5.9 percent, respectively. The damage, which exceeded the damaged caused by the 2008 financial crisis, resulted from the steep drop in Brent crude oil prices in early 2020 from \$69 a barrel to \$20 a barrel (the lowest price since 2001). Both countries are extremely dependent on exports of oil and oil products, which account for 80 percent of Saudi exports and 55 percent of UAE exports. The 45 percent rise in the price of

oil since early 2021 (to over \$70 a barrel) was therefore essential for the two largest economies in the Middle East.

Abu Dhabi, however, recently surprised Riyadh by opposing the agreement reached by the countries in the OPEC+ oil cartel to cut production. Rather, the UAE insisted on boosting its revenues by increasing its oil exports. Under the current OPEC+ agreement, the UAE is allowed to produce 3.17 million barrels of oil a day, while its production potential is four million barrels a day. Saudi Minister of Energy Affairs Abdulaziz bin Salman, a son of King Salman, publicly criticized the UAE, [saying](#) that all the producers are in agreement, "except for one country," and termed the UAE demands "irrational." Under a compromise reached, the UAE's output level was increased to 3.5 million barrels a day starting May 2022, below the 3.8 million it initially demanded but above the previous baseline. Russia, Saudi Arabia, Iraq, and Kuwait will also increase their quotas at that time.

Beyond the recent compromise, the tensions between Riyadh and Abu Dhabi involve broader questions concerning the control and future of the oil market, in view of the climate crisis. The existence of the OPEC+ cartel depends primarily on agreements between Russia and Saudi Arabia, and Moscow has a major interest in preserving OPEC+ as an extremely effective means of influencing the global economy. It is mediating between Saudi Arabia and the UAE, even as UAE criticism of Riyadh is convenient for Russia. At the same time, the energy interests of the three countries have come closer, including strategies to adjust price levels in order to limit production and exports of oil by the United States and to coordinate positions on climate issues and the demand to terminate the use of carbon-based energy in the coming decades.

Indeed, the climate issue has cast a giant shadow over the oil industry. The International Energy Agency (IEA) predicts that the demand for oil will reach 105 million barrels a day in 2030 (5 percent higher than the demand before the COVID-19 crisis). According to the IEA's second scenario, however, if the pledges by leaders around the world about environmentally friendly energy are implemented, the demand will amount to 85 million barrels a day. The UAE's wish to maximize profits now, given the uncertainty in the long term, is therefore liable to influence other countries in the cartel.

## **Additional Economic Disputes**

Beyond the subject of oil, contentious disputes between Riyadh and Abu Dhabi have emerged on four matters:

- a. In early July, Saudi Arabia announced a temporary suspension of flights to the UAE (and other countries) because of concern about the spread of the COVID Delta variant. This has sparked resentment in UAE, because a large proportion of its incoming tourism comes from Saudi Arabia, and because the UAE leads the world in per capita vaccinations. Speculations have circulated on the social networks that health considerations were not the sole motivation for this measure.
- b. Likewise in early July, the goal of turning Saudi Arabia into a global aviation hub through an investment of \$150 billion by 2030, including the founding of a new airline in the short term and expanding infrastructure of airports in Jeddah and Riyadh, was made public. This measure is designed to take market shares away from UAE and Qatar.
- c. Saudi Arabia is trying to attract investors and businesses at UAE expense as part of its vision of making the kingdom a global business center. In February 2021, Riyadh announced that by 2024, Saudi Arabia would sever its ties with companies whose headquarters are outside the kingdom's borders. It is believed that this measure is aimed above all against Dubai, which serves as a base for many international businesses in the region.
- d. Saudi Arabia wants to diversify its revenue sources, and has announced a change in customs imports in the framework of the Gulf Cooperation Council (GCC) customs agreement. Goods containing Israeli inputs and those produced in free trade zones, which constitute an important engine in the UAE economy, will not be entitled to the Saudi customs benefits.

## **Geopolitics**

Over the past decade, Saudi Arabia and the UAE led major regional moves in an effort to shape the region's geopolitics. In recent years, however, they have hedged risks and carried out policies that in many cases were opposed to each other's interests.

Following Iranian attacks on vessels in the Gulf, the UAE began a dialogue with Iran in 2019. The UAE measure reflected anxiety about an Iranian attack on the one hand and doubt about the United States commitment to its security on the other, given the absence of any US response to the attacks. At the same time, the UAE announced the withdrawal of its forces from Yemen, where it had borne the main

burden of ground combat against the Houthi rebels supported by Iran. While Abu Dhabi in effect supports separatists in the south, Riyadh supports the central government in Sanaa, which is recognized by the international community. In addition, the reconciliation agreement with Qatar signed in January 2021 reflects growing pragmatism in Saudi policy, while the UAE is reluctant to fully normalize its relations with Qatar, and still regards it, and political Islam, as a grave threat.

Tension between Riyadh and Abu Dhabi arose frequently in the past, spurred by border disputes involving the location of oil fields, competition for leadership in the Arab world, and disagreements about the direction in which the GCC is headed. Until now, however, the two countries were able to overcome these disputes and present a united front in combating the threats against them. The UAE has usually preceded Saudi Arabia in political measures: the recent contacts between Iran and Saudi Arabia, which followed an Iranian-UAE dialogue, and the possible emergence of a rapprochement between Riyadh and Damascus, can be viewed in this context.

### **Conclusions and Significance for Israel**

The disputes between Saudi Arabia and the UAE are above all economic. It is possible that UAE opposition to the agreement to cut oil production was designed, inter alia, to signal that Abu Dhabi's support should not be taken for granted, and to demand flexibility in the other economic disputes between the two countries. In any case, the expectation that a nuclear agreement will be signed with Iran, and that Tehran will resume its oil exports, will in any case require further discussion of the OPEC+ quotas in the near future.

Riyadh and Abu Dhabi have tried to project that nothing is amiss in their bilateral relations. Indeed, it is natural for allies to have different emphases and constraints, such as Saudi Arabia's greater sensitivity to normalization with Israel. The current multiplicity of disputes, however, indicates an effort by the two countries to reshape the relations between them. In many spheres, the UAE regards itself as an equal, or even superior, to its larger neighbor – an attitude that Saudi Arabia finds extremely irritating. It is important to Saudi Arabia to re-establish what it regards as its superior status over the UAE, which has bettered its regional and international status in recent years, punching above its weight, in part due to unpopular decisions taken by Riyadh, which have lessened its status.

Saudi Arabia and the UAE are viewed as the most important countries in the Middle East taking a pragmatic line toward Israel and the West, and cooperation with them and between them had what Israel perceived as a positive geostrategic influence. Central to this partnership was the perception of Iran and its proxies as a source of threat and instability in the region, to be countered through cooperation between the two countries and with Israel and the United States. Consequently, the disputes between Riyadh and Abu Dhabi detract further from the image of a united regional front against Iran, and could affect supporters of normalization in the region.

Israel should take decisions about the Gulf states based on a comprehensive and orderly geopolitical and economic analysis, for example in cooperating with them in the energy market. Because of their weighty shared interests, Riyadh and Abu Dhabi will not allow relations between them to deteriorate. The current disputes, however, highlight the importance of Israel's covert diplomacy, even after the signing of the Abraham Accords. These disputes make it necessary for Israel to maintain separate channels with the two countries, in part in order to avoid becoming involved in the disputes between them and the appearance of taking sides in those disputes.

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