

# The Attack on Saudi Oil Facilities – What Can We Learn to Cope with Risks?

By Kazumasa Kusaka

In September 2019, JEF held its third Global Risk symposium under the heading “Brexit, North Korea, Iran and the Indo-Pacific” at the International House of Japan in Tokyo, with experts from the United Kingdom, South Korea, the European Union and the United States. JEF had started study groups on global risks with representatives from industry, government and academia to try to achieve a less segmented and more holistic approach. Can sound judgments be made in the business world if business people have little knowledge of geopolitical risks, or in the security world if security experts do not understand economics? Based on our study group discussions, JEF began to organize annual public symposiums on these themes.

Here, I would like to discuss the recent attack on Saudi oil facilities from the perspective of risk analysis. First, there were cases which changed accepted perceptions irreversibly and led to a new set of actions, such as the First Oil Crisis of 1973 and the 9/11 terrorist attacks in 2001. Further back, there was the Sputnik launch and the US defeat in the Vietnam War. Now there is the potential Cold War between the US and China. The common element is being unprepared for the shake-up. Especially if the event emerges from a player or country that has been underestimated, those impacted who may have been overconfident in their control of the game or their invincibility experience the shock of a threat to their economy, society or security.

What had happened after the First Oil Crisis? Previously, the “Seven Sisters” corporations had controlled oil prices, but now the power to manipulate prices moved to OPEC. The shock caught OECD countries off guard, and oil-consuming countries then formed the International Energy Agency (IEA) to cope with OPEC. IEA cooperation had three policy objectives: oil stock piling, energy conservation and development of alternative energy sources. The oil shock also led to the creation of G5 policy coordination to deal with double-digit inflation and high unemployment.

Three decades after that, we experienced 9/11. The fight against terrorism has continued, and the world has divided into long-lasting conflict between the US and its “coalition of the willing” and terrorism-sponsoring countries and their friends.

Turning then to the Saudi attack, we can assume first that it was aimed at damaging the economy and energy supplies. With the news that more than half of Saudi production capacity was destroyed, the market responded with a surge of 20% to \$65 per barrel. Compared with the rise from \$3 to \$12 in the 1970s, this

one was a contained reaction against the loss of 5.7 million barrels, or 5% of global supply. Why so? In the 1970s, we had not been prepared, but now the IEA has a 90-day stockpile and a mutual assistance program. Oil producers have become more diversified, and alternative energy sources have been developed and come from various regions. Moreover, the emergence of the US as the world’s largest oil and gas producer has reduced Saudi Arabia’s role as dependable guardian or swing supplier to fill the demand-supply gap.

Secondly, we can look at the defense technology and deployment aspect. The drone attack on Saudi Arabia took out a known weak spot in the oil supply chain with a cheap, low-tech, easy-to-acquire weapon that billions of dollars’ worth of air defenses was powerless to stop. The obvious question then is whether we had not expected drone attacks. Some experts had warned about them. More importantly, drones have not been unfamiliar technology, but rather a major tool in US counterterrorism policies since 2002. But discussions had focused on questions of effectiveness for the user, without consideration of strategic contexts from the viewpoint of defense.

Harvard Professor Clayton Christensen has argued that big established organizations which often develop innovative technology in-house delay its introduction to the market. The reason is that, if introduced to the market and deployed, the product would destroy a successful existing business line. So internally, established organizations kill the new product while some outsiders dare successfully to introduce such products embodying innovative technology. The drone fits this picture. Underestimating asymmetric rival players can delay decisions even further. Attacks by drone certainly affect thinking on defense strategy, and could trigger more disruptive attacks if any expanded military conflicts develop.

The fact that drones and missiles of multinational origin tend to be deployed in areas of conflict together with technical advisers dispatched by equipment supplier countries, as in the case of Ukraine, makes the situation opaque. Common sense tells us that mutually-assured destruction should serve as a deterrent, but political will as well as wisdom are also necessary.

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