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PRESIDENT GEORGE W. BUSH

[Home](#) > [News & Policies](#) > [Press Secretary Briefings](#)

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Briefing by National Security Advisor Steve Hadley

Al Janadriyah
Saudi Arabia

5:24 P.M. (Local)

MR. HADLEY: Just thought I would try and review a little bit what the President has been doing today. As you know, this morning he had a tour of the Bible Lands Museum in Jerusalem, and then had an opportunity to have a roundtable with Israeli youth, which some of you saw some of. It was an interesting group of young people -- a cross-section, if you will, of Israel today. And the President had an opportunity to express his optimism that, as he said in the speech that he gave to the Knesset, that peace is possible in the Middle East; share his optimism with these young people; and also to hear from these young people about their hopes and dreams for their own future and for their country. It was a good exchange.

We then came here to Saudi Arabia; an arrival ceremony, which you all saw. And then a brief gathering, and finally going into lunch. The President and Mrs. Bush sat with His Majesty and they obviously had an opportunity for informal conversation at the end of the lunch. Then we moved into a separate meeting room and the two leaders had an opportunity to exchange views, and I'll say a little bit about that. And then as you know they moved into a larger room where they witnessed the signature of two agreements between our Secretary of State and their Interior Minister and Foreign Minister.

I'd like to start, if I can, to say a little bit about some of the strengthening and diplomatic ties between the United States and Saudi Arabia that they were able to witness here today. As we've noted, this is the 75th anniversary of the formal establishment of diplomatic relations between the United States and the Kingdom of Saudi Arabia. And it is certainly fitting that these two leaders were able to reach some understandings and agreements that will further strengthen the ties between the two countries.

There are really four things I would draw your attention to, and they are covered in a fact sheet that we've issued. One is that Saudi Arabia will join the 70 partner nations of the Global Initiative to Combat Nuclear Terrorism. There are a number of things that all the countries who are party to this arrangement do. Saudi Arabia will participate in this activity. Just a couple things: These activities include advancing capabilities to search for and confiscate unlawfully held or traded nuclear materials, enhancing means to secure and make more safe civilian nuclear facilities, and promote information sharing and other activities to suppress acts of nuclear terrorism. It's good that Saudi Arabia has joined this initiative.

They have also at the same time joined more than 85 states that are participating in the

Proliferation Security Initiative. As you know, the Proliferation Security Initiative -- or PSI -- is a group of countries that have come voluntarily together to pool information and resources and use their own national capabilities and legal authorities to try to disrupt and interdict the flow of weapons of mass destruction and the means to deliver them or components and equipment that could contribute to the development of those weapons and systems.

Thirdly, there was an agreement signed between the two countries that will enhance their cooperation on infrastructure protection and protection of borders. For example, under the Critical Infrastructure and Protection agreement the two nations have agreed to establish a joint commission on infrastructure and border protection, to facilitate training, the exchange of experts, and support services to each other as required and as needed. And the two countries have agreed to broaden their cooperation between the Saudi Ministry of Interior and various departments in the U.S. government.

And finally, the Secretary of State and the Saudi Foreign Minister signed a Memorandum of Understanding in the area of peaceful civil nuclear energy cooperation. This will pave the way for Saudi Arabia's access to safe, reliable fuel sources for energy in terms of nuclear reactors, and also be part of Saudi advancing the cause of non-proliferation in the Middle East.

The two leaders, before the signing of the two agreements, had an opportunity to have an exchange of views. I would call it a preliminary exchange of views on a set of topics. They will have an opportunity, of course, tonight at dinner to talk further, as well as tomorrow. There really were two subjects that dominated the discussion after initial conversations where they reaffirmed the agreements and understandings that had been reached and that the signing of which they would witness a little bit later.

They talked about Iran and the concern that both leaders have that recent events in Lebanon will embolden Iran. The two countries are of one mind, in terms of condemning what Hezbollah did, to try to bring pressure on the duly elected government of Lebanon. The two leaders obviously reaffirmed their support for the elected government in Lebanon and to strengthening the institutions of that government, including security institutions.

I think one of the things that you're beginning to hear from the Lebanese people, themselves, is the fact that the recent activity by Hezbollah has given the lie to the notion or the argument that Hezbollah has made, that they can maintain maintenance of a militia is needed in order to protect Lebanon from pressure or attack by Israel, because as Lebanese voices are now saying, this was an instance where Hezbollah turned their militia on the Lebanese people and the institutions of a duly elected Lebanese government. And we think that this realization -- spreading realization among the people of Lebanon may help to resolve the underlying political deadlock that has afflicted the government.

As you know, there is an Arab League Initiative in which Saudi Arabia has been a very active proponent that has -- is now in Lebanon, and is trying to get the situation back to the status quo ante, in terms of the actions by the government, and also to get Hezbollah militia off the streets and the people of Lebanon out from under siege, and finally then encourage a political process that could lead to the underlying resolution of the political deadlock that we've seen there.

We obviously support that effort, but I think it pointed up to the two leaders, as they have -- or reemphasized something that the two leaders have believed for some time: that Iran, working directly and through Syria, was very much behind what happened in Lebanon over the weekend;

and it is another example about how Iran is taking actions contrary to the interests of those in the Middle East who want peace, stability and freedom; and, indeed, is a threat really outside to the Middle East to humanity as a whole.

The two leaders discussed ways in which we can more effectively confront Iran's negative actions and behavior and increase pressure on Iran in order to aid our diplomacy in convincing Iran to make a strategic change in direction, to stop its nuclear program, to stop its support for terror, to stop intimidating its neighbors, and at some point hopefully to provide greater freedom to its own people.

The second major topic of the conversation had to do with oil. The Saudi government has reiterated their policy that Saudi Arabia is willing to put on the oil market whatever oil is necessary to meet the demand of Saudi Arabia's customers. Now, it's important to understand that that policy, or even an increase in production is not going to result in some dramatic reduction in gas prices in the United States. And I say that -- what I'm describing for you now was a presentation that Saudi authorities made in the course in the meeting, which was very illuminating of Saudi thinking and policy.

They reiterated the policy that I described. They said that despite these efforts that they would make, in order to meet the demand of their customers, in their judgment, this -- even increased production under this policy would not result in dramatic gas prices -- reduction of gas prices in the United States. They emphasized -- and particularly their oil minister, Minister Naimi, the complexity of today's oil market and that, in his judgment, prices were sustained by a number of things.

There is great uncertainty in the oil market today: [un]certainty about geo-politics, about developments in some countries that are major producers, where there is political or other instability -- and I'm thinking, for example, Venezuela, Nigeria -- some uncertainties with respect to Iran, if you listen to some of the public statements they've been making recently. There is a fair amount of, therefore, heading going on in the market that, if you will, has in the view of the Saudi minister, has injected a margin between the real cost of oil and the market price of oil.

And, finally, he emphasized the mismatch in today's oil market in the type of oil available -- versus heavy versus light, high sulfur versus low sulfur -- and the available refining capacity and the refined products that are available as a result of the refinement of the existing oil that is available today. He talked about the availability of heavy crude and the lack of availability of the special refineries required to take heavy crude and to turn it into refined products available for the market.

Some discussion about how to address the underlying problems in the oil market today. And this is something I think where the things we've heard from Saudi authorities has very much consistent with our own thinking and policy. One, there has to be an increase in reserves, an increase of production from those reserves, and particularly production of oil that can be more easily refined in the existing refining capacity.

And as you know, Saudi Arabia is making a major investment of over \$10 billion over the next five years to increase their own production capacity by over a million barrels a day. This is something that's been public. The President has talked about how the United States -- even though we get the majority of our imported gas from neighbors Canada and Mexico -- also has an opportunity to increase its own reserves. And this is, of course, why we have called for the environmentally sensitive exploration and exploitation of oil reserves in ANWR up in Alaska, and also on the

offshore.

Second, there is a need to increase refining capacity. And the Saudi Oil Minister outlined their own efforts, both in Saudi Arabia and abroad, to increase refining capacity. And as you know, the President has talked about the need for the United States to be able to build new refineries in the United States, something we haven't been able to do for over 30 years.

And finally, of course, we have talked about -- that is to say the President has talked about alternative energy sources that are not dependent on plutonium -- sorry, petroleum, so that we can reduce our dependency on petroleum products. And that, I think, is a good summary of the conversations they had this morning, and I'd be delighted to take some questions.

Q What they told you on the oil front, do you understand that as a promise to boost oil output as needed? How do you interpret that?

MR. HADLEY: What he said, and it was interesting, is, look --

Q When you say "what he said," who is the he?

MR. HADLEY: We're talking about the, as I said, the Saudi Oil Minister, Minister Naimi. He makes the point that this is a market -- you sell to buyers. And if your buyers are not asking you for product, you can put it on the market and it will sit in ships. You need a buyer, and that's why I think the Oil Minister's comment was framed the way it was; reiterated their policy that Saudi Arabia is willing to put on the market whatever oil is necessary to meet the demand of their customers.

And what they're saying to us is, we do not, at the present time -- that is to say Saudi Arabia at the present time does not have customers that are making requests for oil that they are not able to satisfy. And so he's basically said, if our customers come to us and say they have a shortage of crude oil, we will meet that request. But so far what he's saying to us is, there is not unfulfilled demand from their customers that they are not meeting out of their current production, even as they are making investments to increase their production over time.

Q Did they express any concern about the bills in Congress right now that would block weapons deals to Saudi or that would enact -- implement anti-trust legislation against -- are they concerned about that?

MR. HADLEY: There wasn't any specific discussion about that, but obviously they are a student of their customer. And one of the things I think you have heard from Saudi officials before is that they are sensitive to the economic health of their customers. And they are also sensitive to, and aware of, I'm sure, about the unhappiness that is generated in the United States among the American people and in the Congress about these high oil prices. So it didn't come up explicitly, but I'm sure it's something that the Saudi authorities are very much aware of.

Q It sounded to me, and maybe I got it wrong, but that they extremely -- in a very polite way stonewalled you; they said we do whatever is necessary to meet the demand of our customers, but the demand isn't there.

MR. HADLEY: What it tells you is --

Q It's kind of a technicality.

MR. HADLEY: No, on the contrary. How can you sell a product that nobody wants to buy? And what they're telling us is, you need to look at the dynamics of this oil market, and what they're saying is, we sell to something like 50 or so customers, and our customers are not asking us to sell them oil.

So what they're saying is, the problem isn't inadequate supply, the problem is, we don't have the demand at present that is being unmet. I think people have a notion that at some level there is an excess of demand over available capacity, and that may be true in the macro sense, but what the Saudi Oil Minister is saying, look, we've got the oil, and we will sell it to any customer who comes to want to buy it, but we don't have customers who are saying they want our oil that we're not meeting.

And I think what it tells you is, there's something going on in this oil market that is more complicated than just turning on the spigot. I think people -- there's a sense in which people think the problem is, all you need to turn -- is somehow turn on the spigot, get more oil into the market, and everything will be fine. And what they're saying is, we can put more oil on the market, and will, if somebody comes to us and says they want to buy it. But they aren't.

And so the next question is, why aren't they? And the question partly is this mismatch between available production, refinery capability and products. And that's one thing that goes to the issue of demand, demand for what. And then the second question, as well, if the Saudis say there isn't unmet demand from their customers, why is the price of oil so high? And what I think he's saying is, there are other factors that are affecting price other than unmet demand. There is uncertainty, there is speculation.

And I think there's also a recognition that in the short run -- and this I think is very much factored in the price -- in the short run, while economists will tell you demand is going up and will go up in future years, the ability to meet increasing demand over the next several years is going to require an increase in production and refining capacity, which requires mega-dollar investments over a period of time.

So I think one of the things there are -- what I think they are saying is, there are a lot of things that are driving the issue of oil -- of gas prices, and that it is a much more sophisticated analysis than just, "there isn't enough crude on the market, therefore open the spigot" -- basically saying, that won't solve the problem.

Q Well, what -- I'm sorry -- what was the President's reaction to that? Thanks?

Q Did he buy it?

MR. HADLEY: I think the President has said, as you know, very publicly, that this is going to be a problem -- of high oil prices -- a problem that isn't going to be fixed overnight; that it's not something you can take a magic wand to; that we've got to address the underlying problems in the market, and that is -- given the prospect for increasing demand in the years ahead, we've got to make investments to increase production; that that's something that the Saudis are doing and we applaud that. That's something that he thinks we should have been doing over the last five years or so here at home.

So his response has been I think the same that you have heard publicly: We need to make investments in energy, particularly at home. That means new production. That means looking exploration for oil and being willing to develop it in U.S. territory -- that's ANWR in Alaska; that's offshore. He's also talked about the need for increased refining capacity. That's that problem of the mismatch between the kinds and grades of crude available and the refining capacity. Not every refiner can take every grade of oil and turn it into gasoline.

So the second thing he's called -- talked about is the need to invest in refining capacity, which has been stymied in the United States for 30 years. And then the third thing he's called for, of course, is diversification out of -- in addition to petroleum from other sources.

So it's very much consistent with what the President has been saying, which is we have failed to make the investments we needed to make in the past. We need to get after it and make the right investments now if we're not going to have this problem in the future.

Dana, you wanted to --

Q I just wanted to follow up and take a step back then -- is it fair to characterize the Saudi presentation as saying, we understand the problem; there's not a whole lot we can do?

MR. HADLEY: I think what I would say is, I would interpret -- I think that what the Saudis wanted to tell us was, we're doing everything we can do; we're putting oil on the market to satisfy all our customers, and if our customers increase what they want to buy from us, we will meet their demand. And then I think they were saying, we are also making investments to increase our production and to increase refining. So I think the message the Saudis were sending was, we're doing everything we can to meet this problem, but it's a complicated problem and the underlying causes of these high gas prices are going to take time and money to address.

Q But do you see --

MR. JOHNDROE: Folks, Mrs. Bush is on her way shortly, so I think Steve is going to take a couple more questions. All right, so I don't know if you have anything other than oil, because I'm -- I feel like Steve has just about exhausted --

MR. HADLEY: I'm drained out on the oil issue? (Laughter.)

Q President Bush is very well schooled, obviously, on the oil market --

MR. HADLEY: Sure is.

Q -- so none of this -- all this stuff makes sense; you know, explaining the dynamics of the market, the sophistication of it, the complication of it -- all this stuff is stuff the President knows and has known for a long time. Both the President and you and others said before this trip that what he would like to see, even knowing all this stuff before they explained it to him, is increased production. And they're saying that's not something that they think would be helpful or that they're going to do.

MR. HADLEY: No, I think the -- what they're saying is, we're doing it; we have met all the demand from our customers, and if our customers increase the demand, we will meet it, we reaffirm that; we will meet that demand. I think that's a very good thing. And secondly, they

reaffirmed and elaborated a bit on the investments they are making over time that will increase their production and refining capacity. So I think all of that was good.

Q This explanation, did he even ask for an increase in production?

MR. HADLEY: Sure, he -- look, what the President said is, we need to be doing all we can do to deal with this problem. And that's why I said I think the message that came back from the Saudis are, we hear you, we know the markets are under pressure, and we're doing all we can do.

Q But does the President agree with the Saudis that turning on the spigots would not solve the problem?

MR. HADLEY: I think you've heard from the President of the United States. If you look at his comments over the last two or three weeks, he said in a press conference, look, if I could wave a magic wand and make this problem go away, I would, but it's not that simple. So I think what I would say is, it's very consistent in his thematics. Now, can I verify, and did we verify every piece of data we got from the Saudis? No, we'll take that back and see if it conforms to what our --

Q Did the President -- but then, if that was the case, why did the President want OPEC to increase production, if he did not believe that increasing production would lower oil prices? I mean, it doesn't go together.

MR. HADLEY: He does want increased production.

Q But you're saying no.

MR. HADLEY: And he does want to meet -- no, that's not -- I mean, I don't know how many times I can say this. What I said was, they are willing -- they are meeting all the demand, and if there is additional demand, they will meet it out of increased production. And they also said they are making investments today that will increase production tomorrow. So on the question of, are they increasing production, check that box yes.

The question is, will what they are doing in the short run -- a willingness to meet any additional demand from the customers and investments in production over the long term -- will that affect oil prices in the next -- in the short term. What the Saudis are saying is, in their judgment, no. That's not -- that doesn't mean they aren't going to do what they said they were going to do. They just don't want to create false expectations in the same way the President didn't want to when he spoke three weeks ago.

Dana.

MS. PERINO: I'm just -- let me just add another thing, which is that what we have said in the past and what we've continued to say is that there's lots of parallel tracks that we have to be moving along at the same time. And America has a lot of work to do on its own, back home, as well. And decisions that have been made in the past to not allow us to become more self-sufficient are now squeezing us on the price side.

And so there's not only the portion where we need to do more at home on the exploration and production side, but we've got to continue to do more, and the President has put -- had many good policies in place over the past several years on alternatives and renewable energy, and also on

conservation efforts with the CAFE standards. So there's parallel tracks that we all need to be working towards, and I think what you've heard from the Saudis today is, we'd be willing to do more production; at the same time, we are willing to try to help on the refinery side of things.

We have to ask ourselves, why are we not trying to improve refinery capacity in our own country? And barriers to those needs, or even with expanding original sites, we all know some of the reasons for that back home, but I think we need to get over it if we are going to be able to help solve this -- help solve this problem for ourselves.

MR. HADLEY: I think the bottom line is, the problem of high gas prices is more than just about oil, it's more than just about Saudi, and it's more than just about short-term production. It's about a variety of things that I have tried to describe, and what it is -- and the President's message was, of course, been heard by Saudi, by other members of OPEC. But the President's message also is that it needs to be heard by the American people and by the American Congress so that we can start doing the things that are within our own control to increase our own oil production, our own refining capability, and our ability to diversify out of the dependence on petroleum.

Q One non-oil question -- nuclear, please?

MR. HADLEY: Yes.

Q In the past, the administration has made the argument that Iran's claims of its needs for a domestic civilian energy program are not credible because they have such enormous oil reserves. Should competitors to Saudi Arabia fear that they are in the process of trying to develop a nuclear capacity for something other than domestic purposes, given the fact that they have enormous oil reserves sufficient for their domestic energy needs?

MR. HADLEY: Who is?

Q Saudi Arabia has nuclear intentions beyond domestic energy production.

MR. HADLEY: Well, they said very clearly that they haven't.

Q That's what Iran says, too.

MR. HADLEY: Well, but the situations are dramatically different. Saudi Arabia, in a very public way, consistent with IAEA standards, and subject to the IAEA, is beginning to talk about nuclear energy writ large, which is not just an issue about civil nuclear power, but as you read the agreement, it involves cooperation on a number of other things -- very much at the early stages.

Iran, of course, got into the nuclear business in secret with a program outside the IAEA safeguards, that we only found out about it because of the action by the IAEA, tipped off by dissident groups within Iran, and they started their program in a very curious way. Rather than, as the Saudi Arabians have talked about getting civil nuclear power reactors, they started out and went and developed enrichment capability before they had a single civil nuclear reactor on line.

So they developed a capacity to enrich uranium, which, yes, can be used to fuel a civil nuclear reactor, but also can also be used to continue to enrich to a level of weapons-grade for a nuclear weapon. They did that in secret, without disclosing it to the IAEA, in an un-safeguarded way before they ever had a civil nuclear power reactor, which could have been a plausible need for the

enrichment fuel. And it is almost calculated in a way to raise suspicions on the international community that they had something else in mind. So I think the situations could not be more different.

Q What does Saudi Arabia need nuclear energy for?

MR. HADLEY: It is a technology that has a lot of uses, and at some point they make -- for things like, for example, desalinization, it is a particularly good power source, and you've -- it's better probably for you to talk to Saudi authorities about their various development plans, but I know one of the things that's on the minds of countries in the Middle East is nuclear power to fuel desalinization plants to deal with, of course, the underlying problem in the region, which is fresh water.

Q Does this mean U.S. troops are going to go back to Saudi Arabia to protect these oil resources that you all agreed to today?

MR. HADLEY: No, there's -- the whole point of these agreements, of course, is to cooperate and support Saudi efforts to safeguard their own oil infrastructure. And we think Saudi Arabia can do that job, wants to do that job, and it's in, of course, our interests as a close ally to support them and help them develop that capacity for themselves.

Q No U.S. troops?

MR. HADLEY: There we are. Thank you.

END 5:57 P.M. (Local)