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MARRIAGE OF OIL CONVINIENCE: THE UNITED STATES AND SAUDI ARABIA'S CASE STUDY

Usage of oil, as a weapon is a statement, which is becoming more and more widespread among researchers, news agencies and policy makers. This article focuses on examples, which illustrate the evidence of energy priority. The U.S.-Saudi Arabia relations, in the framework of case study research, serve, as one of the historical, complicated and unique ones. The U.S., as the largest consumer of oil in the world are interested in stable oil prices, first. Saudi Arabia has influence on the world market price of oil by adjusting output. One of the latest example was – manipulating oil prices to try to keep US shale from becoming a viable competitor in the global market. In this article, you will find comparison challenges for the U.S.-Saudi Arabia relations throughout different periods: 'oil shocks', 9/11 terrorist attacks, oil prices games and their influence on the U.S. Is cooperation still favorable to both partners?

Keywords: oil shocks, oil prices, OPEC, adjusting output, U.S., Saudi Arabia, dependence.

When we speak about energy resources, as a weapon in the modern policy, it is quite important to retrace policy of the main energy global actors. The chosen method of research is case study. As this methodology helps to conduct a comparative investigation that shows relationships between two or among more than two subjects, and shows the phenomena in the natural setting to increase understanding of it.¹

The phenomena of Saudi Arabia and US relations should be observed foremost. Saudi Arabia is the world's second largest oil producer behind the U.S. An exporter, which control the world's second largest oil reserves, the sixth largest gas reserves. An important fact is that Saudi Arabia is an active member in the Organization of Petroleum Exporting Countries (OPEC), which influences oil prices formation on the energy market².

The Gulf Cooperation Council (GCC) that includes the Saudi Kingdom, United Arab Emirates, Kuwait, Qatar, Oman and Bahrain, contains over half of the global oil stocks and more than a third of its natural gas. Professor Noam Chomsky noted "One of President Roosevelt's leading advisors said, that who controls the Gulf region, will have substantial control of the world." President Eisenhower called it "The strategically most important part of the world"³. These statements show the strategic importance of this region to American policy makers, not just for the last decades, but also for the last half of the century.

Saudi Arabia's vast oil resources primarily characterize U.S.-Saudi trade relations, with over \$20.9 billion in exports annually. The U.S.-Saudi historic relations in the oil industry have helped both states to determine the importance of cooperation for both countries⁴.

Before United States became the Middle East's protector, Great Britain served in this role. Saudis relied on the British as their security guarantor, especially before the Kingdom could profit from the export of oil, which was only discovered in 1938.

Energy relations between the U.S. and Saudi started in 1933, when Saudi Arabia granted an oil concession Standard Oil Company of California (now Chevron). And they can be described as an exchange of Saudi oil for American security. This defines Saudi Arabia's "special" relationships with its most important ally, the United States. Saudi Arabia's oil and the interests of American companies in exploiting it has become inseparable element of US interest⁵.

¹ Yin, K.R. (2009). Case Study Research: Design and Methods. *SAGE Publications, Vol. 5*, 15-22.

² U.S.-Saudi Arabia Trade Facts. *Office of the United States Trade Representative website*. <<https://ustr.gov/countries-regions/europe-middle-east/middle-east/north-africa/saudi-arabia>> (2019, January, 24).

³ Chomsky, N. (2010). U.S. Savage Imperialism: the U.S. Empire, the Mideast, and the world. *Part I*. <<https://ru.scribd.com/document/45212745/US-Savage-Imperialism-by-Noam-Chomsky>>

⁴ U.S.-Saudi Arabia Trade Facts. *Office of the United States Trade Representative website*. <<https://ustr.gov/countries-regions/europe-middle-east/middle-east/north-africa/saudi-arabia>> (2019, January, 24).

⁵ Blanchard, M.C. (2018). Saudi Arabia: Background and U.S. Relations. *Congressional Research Service report, Vol. 72*, 47. <<https://fas.org/sgp/crs/mideast/RL33533.pdf>> (2019, January, 15).

The convergence of countries happened after the WWII, when the U.S. President Franklin D. Roosevelt was returning from the Yalta Conference in 1945. On his way back he decided to meet with some of the Middle East and Africa's most important leaders, among them was the first Saudi king – Abdul Aziz ibn Saud. He was a charismatic yet isolationist military leader, who had united Saudi Arabia¹.

It was obvious, that two leaders got along with each other, as Roosevelt ordered one of his two wheelchairs to be given to Abdul Aziz as a gift. They both bore physically limited –Roosevelt moved in a chair and the King walked with difficulty, was unable to climb stairs because of wounds in his legs².

Unfortunately, the great friendship between Roosevelt and Abdul Aziz didn't last for long – the U.S. president died less than two months later. The next president Harry Truman wasn't so close with Abdul Aziz. However, the core themes of the Saudi – U.S. cooperation, established on security and oil, have endured through five Saudi kings and twelve U.S. presidents³.

The phenomena of two countries relations can be analyzed through this realized dependence. On what could U.S. close their eyes for the sake of oil? Are there any additional interests in oil sector?

Oil shocks, as turning points of energy value.

Since old times the Middle East region has been quite unstable and the fact that it is a crossroad of international interests, only complicated the internal situation. An oil factor is making this region even more attractive and complicated.

If we talk about turning point of resources value and realizing the dependence on 'favorable' attitude to oil dependent countries, it was the "first oil shock" in 1973, when OPEC stopped exports of oil to the U.S. and other western nations in order to punish them for supporting Israel in the Yom Kippur War. OPEC countries decided to cut off the oil supply as long as the territory occupied by Israel was not exempt. The first country that was embargoed was the United States. It has happened because of the U.S. political and military support for Israel. The oil embargo forced America to consider about such things as energy security in a sense of uninterrupted supply, oil prices, which up to 1973 no one had worried about a lot. Until October 1973, the price per barrel was below \$5. After the "first oil shock" in 1973-1974, the price rose to \$12-\$15. The embargo was cancelled only in March 1974 after a common agreement⁴.

The "second oil shock" was determined by such factors, as the fall of the Shah Regime in Iran and as a consequence – the Islamic Revolution in 1979, which led to the formation of an Islamic state under revolution leader Ayatollah Khomeini. As one of the consequences was the Iranian hostage crises from 1979 until 1981, when Khomeini called the people to demonstrate against U.S. influence. During this demonstration, 500 revolutionists seized the U.S. embassy in Teheran and the hostage crisis ended with the release of all hostages in January 1981. The "second oil shock" in 1979 strengthened understanding of Saudi's importance mostly for the U.S.

The Islamic Revolution caused the crisis inside OPEC, oil prices increased, as Iran was the second oil producer in OPEC, the loss of Iran was quite significant. In January 1979, the price sharply increased to \$30 within one year. Before the oil price dropped below \$15 in December 1978, the U.S. was unable to stop the rising prices and shortages. The only country that could realistically make up the Iranian loss was Saudi Arabia. But, no one was sure for how long this would last. When Iran was definitely "lost", the U.S. knew they had to do all they could to hold up Saudi Arabia as the largest oil producer⁵.

They pressured Saudi Arabia to keep pumping oil but it became more important to make sure Saudi Arabia was secure. The Iranian Revolution had shown that even strong monarchies were vulnerable. Could

¹ Taylor, A. (2015). The first time a U.S. president met a Saudi King. *The Washington Post*.

<https://www.washingtonpost.com/news/worldviews/wp/2015/01/27/the-first-time-a-u-s-president-met-a-saudi-king/?utm_term=.edad8db4512f> (2019, January, 26).

² U.S.-Saudi Arabia Relations. *Council on Foreign Relations website*. <<https://www.cfr.org/backgrounders/us-saudi-arabia-relations>> (2019, January, 24).

³ U.S.-Saudi Arabia Relations. *Council on Foreign Relations website*. <<https://www.cfr.org/backgrounders/us-saudi-arabia-relations>> (2019, January, 24).

⁴ Clawson, P., Henderson, S. (2005). Reducing Vulnerability to Middle East Energy Shocks: a key element in strengthening U.S. Energy Security. *The Washington Institute for Near East Policy*. <<https://www.washingtoninstitute.org/html/pdf/PolicyFocus49.pdf>> (2019, January, 23).

⁵ Power, N. (2014). The 1979 Energy Crisis: US Foreign Policy and Public Consciousness. *The Boolean*, 156-157. *UCC website*. <<http://publish.ucc.ie/boolean/2014/00/power/31/en>> (2019, January, 25).

it only be a matter of time before a similar happened with Saudi Arabia? Besides, during 1945-1979 the U.S.-Iranian relationships were quite similar to the U.S.-Saudi relationship now¹.

Directly after revolution, diplomatic relations between the U.S. and Iran were broken and have not been restored ever since. Saudi Arabia has strengthened as the U.S. partner in the region since then, though their relations have never been in absolute harmony, too many 'but' we can see among them.

After the "second oil shock" the price returned to lower levels between \$12 and \$18, but then again doubled to \$33 before the 1991 Gulf War. When Iraq invaded Kuwait in 1990, the markets reacted with panic, fearing that the oil supply from Iraq or Kuwait could be threatened, and that there would be an oil shortage. While the annexation of Kuwait and the Gulf War led to a short-time price peak, the oil supply was also affected. In August 1990, the oil supply from Arab countries fell by 25 %, mainly driven by the dropout of Kuwait as a supplier, and possibly due to the trade embargo that was imposed against Iraq².

In the 1990s, the price varied below \$20 and reached its lowest point of \$10 in 1999, as a result of the financial crises in Asia. After this phase, the price strongly increased again and, after an interruption in 2001, reached a level of \$70 in June 2006. The Saudis followed a prearranged strategy of arranging production in an effort to stabilize prices. For example, the decision to increase production sharply in late 1990 was a reason why the oil price shock of 1990 was so short-lived. It is quite profitably to continue to do so in response to the longer-run pressure of growing world demand³.

On the graphic 1, we can see prices declines, increasing and reasons of it from 1983 to 2014.

Oil's Ups and Downs

Benchmark price per barrel of U.S. crude at the end of each month



Figure 1. Oil's Ups and Downs from 1983 to 2014

New challenges on the way of energy stability: 2001-2014.

The next serious challenge for the U.S.-Saudi relations was 9/11 attacks, a wave of anti-Saudi sentiment in the U.S. damaged relations between the countries. It was discovered, that 15 of the 19 hijackers, who participated in the attacks were Saudi nationals and the head, Osama bin Laden, was from one of the Kingdom's most prestigious families.

¹ Bakhash, S. (2009). The U.S. and Iran in historical perspective. *Foreign Policy Research Institute website*. <<https://www.fpri.org/article/2009/09/the-u-s-and-iran-in-historical-perspective/>> (2019, January, 10).

² Clawson, P., Henderson, S. (2005). Reducing Vulnerability to Middle East Energy Shocks: a key element in strengthening U.S. Energy Security. *The Washington Institute for Near East Policy*. <<https://www.washingtoninstitute.org/html/pdf/PolicyFocus49.pdf>> (2019, January, 23).

³ Omar, M. (2017). The Special Partnership: Considering U.S.-Saudi Relations through the Alliance. *University of Ottawa*. <<https://ruor.uottawa.ca/bitstream/10393/36607/1/OMAR%2C%20Mohammed%2020175.pdf>>.

Many Americans were sure according Saudi government's involvement in the 9/11 attacks. However, the Commission found no evidence that the Saudi government was involved, as an institution or Saudi officials individually funded Al Qaeda. According to the report, Saudi Arabia "Was a place where Al Qaeda raised money directly from individuals and through charities" but indicates, that "charities were with significant Saudi government sponsorship"¹.

The fact that such diverse societies such, as Saudi Arabia and the United States have found a way to maintain such a lasting bilateral relationship, even after the 9/11 attacks, proves that their mutual interests and energy markets are incredibly strong.

The next phase should be called, as 'oil crises', as we can't speak about shocks any more, and there were differences between these periods. The first oil shocks in 1973 and 1979 were caused by physical disruptions of supply, but the price run-up of 2007-2008, was caused by strong demand confronting stagnating world production. Production declines caused former OPEC member Indonesia to become an oil importer, and the nation dropped out of OPEC in 2008. The Saudis followed a deliberate strategy of adjusting production in an effort to stabilize prices².

2007-2008 crises caused the collapse of oil prices. The closing price, which rose to an all-time high of \$145.31 per barrel in July 2008, and was driven down to \$41 per barrel in December 2008³.

Because the United States is a net importer of oil, prices changes influence on them, first. When oil prices fall, as they did in the second half of 2008, the United States benefits from an improvement in its terms of trade as consumers pay less for oil. When oil prices rise, as they did in 2007 and the first half of 2008, the terms of trade deteriorate because consumers pay more for the same quantity of oil⁴.

U.S. and Saudi Arabia relations from contradictions to warming (2014-2018).

Recently, U.S.-Saudi cooperation on the energy market has been challenged by developments in American domestic oil production. Nowadays there are several alternative energy resources, one of them is shale oil and gas. The rise of U.S. shale oil production has opened new opportunities for them⁵.

On the graphic 2, we can see difference in oil prices from 2014 till the beginning of 2019.

Saudi Arabia has attempted to counter shale production through initiating oil price decreases. Record oil prices helped to stimulate investment in U.S. shale oil production, helping to increase its energy independence. The kingdom has manipulated oil prices to try to keep U.S. shale from becoming a viable competitor in the global market. Saudi Arabia resisted calls to reduce oil production to stabilize prices. Sharp falls in price coincided with global surplus in oil supply, which forced U.S. shale producers to cut production by 75 percent since September 2014. However, in 2016, U.S. shale production experienced a revival, with innovations helping to make shale production lucrative at lower oil prices. Data from the Energy Information Administration (EIA) shows the revival in shale oil production has raised U.S. oil production to a record 9 million barrels per day⁶.

In 2014, OPEC, led by Saudi Arabia, adopted a policy to remove member-country production quotas and decided not to adjust oil production levels at a time when the oil market was oversupplied. As a result, the price of oil declined from over \$109 per barrel in May 2014 to about \$30 per barrel in January 2016.

¹ Derks, J. (2017). The Future of the U.S.-Saudi Relationship. University of Central Florida. *Prince Mohammad bin Fahd Program for Strategic Research & Studies*. <<https://sciences.ucf.edu/news/wp-content/uploads/sites/166/2017/07/Derks-US-Saudi-relations-2017.pdf>> (2019, January, 24).

² Zhang, X., Yu, L., Wang, S. (2009). The Impact of Financial Crisis of 2007-2008 on Crude Oil Price: Conference paper from book. *Computational Science – ICCS (2009). 9th International Conference Baton Rouge*. Los Angeles, 647.

³ Hamilton, J.D. (2009). Causes and Consequences of the Oil Shock of 2007–2008. *Brookings Papers on Economic Activity*, 40(1), 215-283. <https://www.brookings.edu/wpcontent/uploads/2009/03/2009a_bpea_hamilton.pdf>.

⁴ Hamilton, J.D. (2009). Causes and Consequences of the Oil Shock of 2007–2008. *Brookings Papers on Economic Activity*, 40(1), 215-283. <https://www.brookings.edu/wpcontent/uploads/2009/03/2009a_bpea_hamilton.pdf>.

⁵ Crane, K., Goldthau, A., Toman, M. (2009). Imported Oil and U.S. National Security. *RAND Corporation*. <https://www.rand.org/content/dam/rand/pubs/monographs/2009/RAND_MG838.pdf> (2019, January 10).

⁶ Hou, Z., Keane, J., Kennan J., Velde W.D. (2015). The oil price shock of 2014: drivers, impacts and policy implications. *Working Paper 415. Shaping policy for development*. <<https://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/9589.pdf>>.

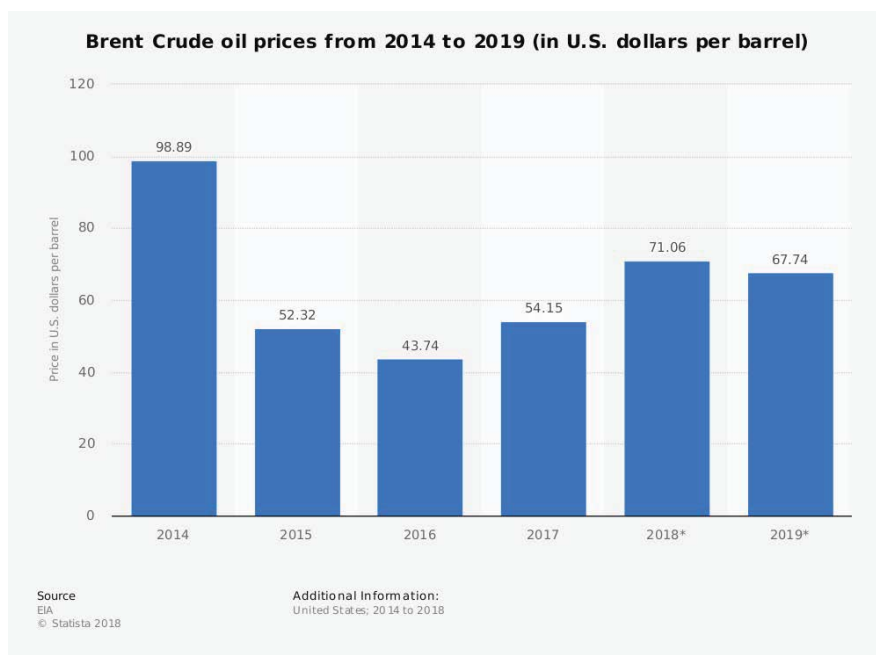


Figure 2. Brent Crude oil prices from 2014 to 2019

In December 2016, OPEC and 11 non-OPEC countries, led by Russia, collectively agreed to reduce oil production. World oil prices began a steady increase to around \$80 per barrel¹.

The decision of the U.S. to sign a nuclear agreement with Iran in 2015 has even more complicated the U.S.-Saudi relations, as Iran continue to be it's main regional rival. Russia, the U.S., England, China, France and Germany, reached a momentous agreement to resolve the long-standing problem of the Iranian nuclear program: the Joint Comprehensive Action Plan (JCPOA). The implementation removes Iran's economic and financial sanctions of the UN Security Council, the United States and the European Union².

However, since Donald J. Trump has become U.S. President, U.S.-Saudi relations have grown especially warm. As Trump wasn't a fan of the JCPOA, in May 2018, it was announced about intentions of withdrawal from a nuclear program agreement with Iran, despite the size of the potential loss of Iranian barrels. Trump reported on the restoration of all sanctions against Iran, including secondary ones, that is, against other countries doing business with Iran. The remaining members of the "six" opposed a similar move by the United States. Saudi Arabia showed desire to ease the supply curbs and declared their willingness to do what is necessary to reassure consumers. Saudi Arabia ramped up its production and exports in June, pre-empting any losses from Iran and pushing more oil into the market³.

The Trump Administration has strengthened the U.S. ties to Saudi leaders by series of new domestic and foreign policy initiatives. In 2017 Saudi Arabia was the largest the U.S. trading partner in the Middle East by overall value⁴.

According to the U.S. Energy Information Administration in 2018, Saudi Arabia was the second-largest source of U.S. crude oil imports, providing an average of 948 thousand barrels per day of the 7.6 million barrels per day in gross US crude imports, behind Canada⁵.

¹ Hou, Z., Keane, J., Kennan J., Velde W.D. (2015). The oil price shock of 2014: drivers, impacts and policy implications. *Working Paper 415. Shaping policy for development*. <<https://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/9589.pdf>> (2019, January, 22).

² Bokhari, K. (2017). Keeping the future in focus the U.S.-Saudi Alliance. *Geopolitical Futures website*. <<https://geopoliticalfutures.com>> (2019, January, 20).

³ Bokhari, K. (2017). Keeping the future in focus The U.S.-Saudi Alliance. *Geopolitical Futures website*. <<https://geopoliticalfutures.com>> (2019, January, 20).

⁴ Omar, M. (2017). The Special Partnership: Considering U.S.-Saudi Relations through the Alliance. *University of Ottawa*. <<https://ruor.uottawa.ca/bitstream/10393/36607/1/OMAR%2C%20Mohammed%2020175.pdf>>.

⁵ U.S. Energy Information Administration. Independent Statistics & Analysis. *Annual Energy Outlook 2017*. <<https://www.eia.gov/>>.

One of the last accidents, which can prove oil manipulating attempts, is the murder of a well-known journalist Jamal Khashoggi at a Saudi Arabia consulate in Istanbul. For a long period, he was close to the Saudi royal family and also served as an adviser to the government. Then, after a self-imposed exile in the U.S. in 2017, he wrote a monthly column in the Washington Post in which he criticized the policies of Crown Prince Mohammed bin Salman. After that column he was talking about fear for his life, so when he was killed, all suspicions fell on Saudi's Government¹.

There was an international community's reaction, from the U.S. as well. It has caused a diplomatic crisis between partners. After the murder was confirmed by the Saudis, President Trump described it as the "worst cover-up in history"².

The Saudi Foreign Ministry declared: "The Kingdom will respond to any measure against it with an even stronger measure." While this statement was strong, it didn't mention oil. About two weeks later, the Saudi Energy minister Khalid Al Falih said: "There is no interest in repeating 1973. Of course, oil markets in 2018 are quite different from those of 1973, but consequences still will be significant"³.

These statements show the real oil priority, aren't they?

Conclusions

OPEC can serve as a buffer against oil market disruptions, and it gives OPEC additional political and economic influence in world markets. Saudi Arabia has the biggest oil reserves and plays crucial role in organization. Cooperation between the U.S. and Saudi Arabia is a great example of mutual interests.

Countries have such common interests as energy trade, business cooperation and global petroleum prices. Nowadays, the U.S. are energy developed country, as their shale oil and gas sector is strong and compatible. However, such issue, as oil price have spurred a discussion about a "new oil crisis", which is different from previous crises, because mainly demand-driven. A new era for oil pricing dynamics has started, and without the Saudi Arabia's willingness or ability to adjust production to smooth out price changes, any disturbance to supply or demand will have a much larger effect on prices than in earlier periods.

The enduring contradictions of the Saudi American relationship can be really compared with marriage of convenience. Such examples in this article, like 1973 oil shock, 9/11 terrorist attack, manipulating oil prices to try to keep US shale from becoming a viable competitor in the global market – prove the U.S. understanding, that divorce will cost much more, than patient cooperation.

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² Jamal Khashoggi: All you need to know about Saudi journalist's death. *BBC News*. <<https://www.bbc.com/news/world-europe-45812399>> (2018, December, 28).

³ Jamal Khashoggi: All you need to know about Saudi journalist's death. *BBC News*. <<https://www.bbc.com/news/world-europe-45812399>> (2018, December, 28).

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