

# CHAPTER I

## INTRODUCTION

### A. Background

The history of United States and Saudi Arabia relations had lasted long enough since the United States was given the right of oil mining concessions in the Middle East by the Standard Oil Company. From time to time, United States, also known as a superpower, began to focus their attention to the Middle East and became the main actor which influences the political dynamics of Middle East. However, among many Middle East countries that have diplomatic relations with the United States, there was one country which has 'special' relations with United States instead of diplomatic relations between United States and Israel. It was Saudi Arabia.

United States began to focus seriously to Middle East region in line with the developing and operating of various mining companies' oil in United States. It began when the discovery of oil resources in Bahrain, Saudi Arabia and Kuwait. United States began to expand their major into the oil-producing region. United States then managed to get a concession to join the Standard Oil Company on 29 May 1933 and to obtain oil exploration rights for 60 years and covers a vast area in the eastern part of Saudi Arabia (Saudi Aramco, 2017).

Californian Arabian Standard Oil was founded as an oil mining company. The name of the company was changed to Arabian Oil Company because at that moment Texas joined the company in 1934 (Saudi Aramco, 2017). In 1952, the staff and the headquarters moved to Dhahran, Saudi Arabia. In 1980,

the government of Saudi Arabia had completed its gradual buyout for the assets of Aramco.

World oil prices continued to increase and decrease over time. This was due to several factors that can influence and cause an effect on the price of petroleum. Petroleum itself is a natural resource that is essential for modern human life today. Petroleum is extracted from oil wells mining viscous liquid which has dark brown or greenish colors. To be able to be utilized as fuel oil, the petroleum was ready to be prepared or processed again at the oil refinery.

Oil resources that are scattered throughout the world have reserves varying between one country and another. Because the sources of oil reserves in the world are found commercially, since that time there was a massive exploitation. This issue opens the opportunities for United States to dominate the global oil market. United States is a country that has world's largest shale gas reserves, 18.837 trillion cubic meters (Nasional, 2016) .

United States is the country that has the largest reserves of Oil Shale. This can be a weapon for the United States to defeat oil in Saudi Arabia and slowly take control of oil in the country. The United States' success in producing Oil shale can be seen from the consumption of shale gas in the United States which is increasing.

In 2000, shale gas meets only 1% of total energy needs. In 2010, the contribution of gas has jumped to 20% (Nasional, 2016) . The United States was once a gas importer country but conversely, United States has turned self-sufficient in gas. The influence of shale gas in the constellation of the world's energy is already being felt by OPEC (Organization of the Petroleum

Exporting Countries) since last June. The price of oil slowly declined below US \$ 100, even coming closer to US \$ 80 per barrel (Nasional, 2016). The reason of the declining oil price was because many OPEC customers have shale gas and start reducing oil imports (Nasional, 2016).

Hopefully, when this research accomplished, we would comprehend that the consciousness of such problem must meet with the integrative strategic and tactical efforts to solve the problem effectively and efficiently. This research would also show that the defect of oil war can create the estrangement towards United States and Saudi Arabia relations.

This research is addressed to some audience who want to deepen their knowledge about the relations between the United States and Saudi Arabia. This research is also addressed to young generation in order to enthuse the young generation to be a helper to drown or to solve this problem.

This research would be completed using two kinds of relevant data and/or information. Secondary data were mostly from books, journals, written reports, websites, online newspapers and documents relating to the object of meticulous research by the author.

## **B. Research Question**

From the explanations above regarding the background of the conflict, then the question emerged as *“How did oil war impact the relations between United States and Saudi Arabia in 2015-2016?”*

## **C. Research Purpose**

The purpose of this research is to find out the bad impact of oil war towards the relations between the United States and Saudi Arabia. Furthermore, this research is beneficial to predict how is the future relation

between the United States and Saudi Arabia and the foreign policy of United States.

#### **D. Theoretical Framework**

##### **1. Mercantilism**

Economic nationalism, or often called "mercantilism," is essentially an economic philosophy that believes that economic management should be part of the state's goal of fulfilling its national interests in terms of wealth, power and prestige (Griffiths, 2005) . Mercantilism does not see cooperation with other countries as profitable. Mercantilism has the primary goal of maximizing wealth. Mercantilism sees the economy as a key factor in achieving that goal. In short, mercantilism sees the economy as the primary tool for achieving the political interests of a country. Mercantilism sees the economy as a very conflicting arena with multiple collisions of interests that choose not to cooperate under such conditions (Griffiths, 2005).

To achieve the goal, Mercantilist usually does two things. First they orientate and control their domestic economy so as to produce a good trade balance. Their goal is to produce goods for export but at the same time they can keep imports of goods low. Second, they will direct their industry to produce value-added products from cheap imported raw materials. (Griffiths, 2005)

The Mercantilists also do not recognize the term interdependence or dependence as liberals, however Mercantilism recognizes self-determination. In the Mercantilism dictionary, there is no lucrative

cooperation term but competition that drops each other. The mercantilists state that the economy must fulfill their goal which is increasing state power so that politics must be positioned above the economy. (Jackson & Sorensen, 1998)

In explaining United States action in producing shale oil, concerning the relations with Saudi Arabia, Obama seems to have no burden whatsoever, United States is not afraid of anything else. Practically, in fact nowadays United States does not even need Saudi Arabia. Once United States was afraid of oil embargo by Saudi Arabia, the United States economy is heavily dependent on Saudi Arabia's crude oil. Today United States does not require Saudi Arabian oil. United States now has its own source of energy that is cleaner and cheaper which is shale gas. Since United States discovered shale gas a few years ago, it has increased significantly. Its energy source is very cheap. When China, Japan and Europe have to buy gas at the lowest price of 9 dollars / MMBtu, the price of gas in the United States is only 3 dollars / MMBtu. (Administrator, 2015)

## **2. Foreign Policy**

According to *Goldstein and Pevehouse*, (2008), foreign policies are the strategies that the governments use to guide their actions in the international arena. Foreign policies spell out the objectives of the state leaders have decided to pursue in a given relationship or situation.

The foreign policy theory can also explain about the United States decision to continue producing oil to compete with Saudi Arabia. The objective of United States is conquering the oil in Saudi Arabia. The importing countries of petroleum, including United States, should be aware of the possibility that OPEC will be successful in terms of oil. The cost of producing a barrel of crude oil in the Middle East has been estimated between \$ 2.00 and \$ 3.00 (Nasional, 2016). The point is that when oil prices continue to decline and reach \$ 44.00 per barrel, it can open the opportunity for United States industry strategy to develop new energy sources and bring it to the oil market to be sold at a cheaper price than the price of oil in the Middle East. This is one of the strategies of United States to dominate the world oil market share. Oil generates some possibilities that affect a country. The oil can also affect a country's foreign policy. Some countries increase the cost of conflict and the rest reduce the cost of conflict. Oil also made the major countries increasingly aggressive to control oil. However, oil tends not to cause state aggression. The impact of the oil depends on a country's domestic politics (Colgan, 2013).

The up and down relations between United States and Saudi Arabia has started in 1943, At that time the Crown Prince Faisal and Prince Khalid visited the White House at the invitation of President Franklin Delano Roosevelt. Both princes agreed to receive security assistance from the United States in return for Saudi Arabia's continuation of giving access to American oil companies in Saudi Arabia.

In 1973, King Faisal proclaimed oil embargo to the United States because President Richard Nixon considered supporting Israel in the Yom Kippur war that occurred in October. However, eventually Saudi Arabia and the US work together to encourage the Arab-Israeli peace process (Kiblat net, 2016) . Meanwhile, in 2010, United States has started to produce Shale Oil as the other commodity instead of crude oil, the production of shale oil causes Saudi Arabia feel unrivaled as the country with the main commodity is oil. The productions of shale oil will directly impact the income of the country.

### **3. Concept of Oil War**

According to *Kaldor 2007*, Oil war is a term that is used to describe a conflict about petroleum oil, including its consumption and procedure. It may also refer generally to any kinds of conflicts in a region that has oil reserves or it is located where an entity has the largest oil resources and wants to develop its production or infrastructure for petroleum products. It also refer to any kinds of specific oil wars (Kaldor, Karl, & Sahid, Oil Wars, 2007).

Oil wars did not look at its fighters, regardless of religion, ethnicity and objectives of fighters it leads to a conflict. Where there is oil, there is also a war which tends to involve the struggle to control the huge profit produced by oil resources (Kaldor, Karl, & Sahid, Oil Wars, 2007).

This conception of war can be adopted in the case of Oil War between United States and Saudi Arabia. The term of ‘War’ in Oil War

which happens in United States and Saudi Arabia is not included in the context of actual meaning of war, where the exact definition of war is to attack the opponent using force or by military force. In this context, United States indirectly declared war against Saudi Arabia when United States began to produce shale oil in the country.

The declining of oil prices is nothing but the economic war between the exporting countries. This method is used by United States against Saudi Arabia to produce Shale Oil. The reluctance of Saudi Arabia to cut the oil production is considered also to increase the production of shale oil and shale gas United States, which has affected the global oil market (Mujiyanto, 2016). Hopefully, the more expensive production of shale oil and shale gas, the price of conventional oil will be more decreased. In contrast, nowadays, those two types of oil production remain at the same level. So, the world is currently witnessing a psychological war between the United States and Saudi Arabia, which ultimately affects the price of crude oil.

#### **E. Hypothesis**

Based on theories which are used in this paper, the bad impact of oil war towards the relations between United States and Saudi Arabia can be assumed as follow:

1. There is no continuation of United States oil imports from Saudi Arabia with the formation of shale oil producer in the United States.
2. The shale oil revolution is in danger.



## **F. Method of Research**

This research used the data collection by examining words within the large scope of data. This research also needs a collection of data taken from written source such as books, papers, journals and news. The internet-based source plays important role to provide data such as pictures, articles and reports in order to obtain the update information.

## **G. Scope of Research**

This research is limited to find out the history of the relations of United States and Saudi Arabia and their own foreign policy especially about oil. However, to conduct proper analysis to this problem, the important cases from recent cases are needed into consideration in decision making process. This research would only focus during 2015 when the crisis of oil happened and United States try to produce shale oil until 2016. However, the history of the relations will be explained.

## **H. System of Writing**

Chapter one is the introduction of the research, which consists of background, the purpose of research, theoretical framework, hypothesis, research method and system of writing.

Chapter two is about United States Foreign Oil Policy There will be an explanation about shale oil and crude oil. The difference between shale oil and crude oil will be explained within the explanation in both types of oil. The explanation about the impact of shale oil in economic sector of United States will be explained also.

Chapter three is about the history of oil war, there will be an explanation about embargo of oil in Yom Kippur war in 1973, gulf war, embargo of oil in Mexico and the third is the war of oil prices between United States and Saudi Arabia including the relations of United States and Saudi Arabia.

Chapter four is the analysis of the bad impact of oil war towards the relations between United States and Saudi Arabia. There will be two main aspects to analyze, which are economics and politics.

Chapter five is the Conclusion. There will be the result of the analysis