CHAPTER IV

ANALYSIS THE BAD IMPACTS OF OIL WAR TOWARDS UNITED STATES – SAUDI ARABIA RELATIONS

In analyzing the bad impact of oil war towards United States-Saudi Arabia relations the writer uses the foreign policy theory by Goldstein and Pevehouse. 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 (Goldstein & Pevehouse, 2008). Those actions are not only acted by the government but it can also be acted by the interests group. In this case, oil war happens because United States indirectly declare war with the productions of the shale oil.

The government of United States has more interests toward Saudi Arabia because of the natural resources and terrorism. When oil war happens, the government of both states did not want to cut their productions of oil. The aim is to make the opponent state broke down slowly. However, United States still have several interest towards Middle East. First, is to maintain the existence of Israel as the elder brother of United States in Middle East. Second, is keeping the existence of United States interests and its allies in Middle East (Western Europe Japan, South Korea). Third, is maintaining the existence of United States allies in Middle East and the last is maintaining the existence of exploration and transportation of oil to allies of Saudi Arabia.

Based on the explanation about foreign policies above, in explaining the bad impacts of oil war towards United States-Saudi Arabia relations, the writer analyze that there are several impact of oil war that appears towards United States and Saudi Arabia relations.

A. The development of shale oil in United States economy

The emergence of United States shale oil and gas ultimately affect world energy order. Furthermore, the oil-rich nations which have dominated the world's oil supply was concerned, especially Saudi Arabia, because United States' shale oil production eventually flooded the world oil market. United States has become the largest oil producer in the world, according to a report from BP Energy Company (BP America Inc, 2017). However, United States can be the largest oil producer in the world is still questioned. United States is a country with a lot of natural resources, but these resources have not been known. So, the utilization and new problems arise today. The second question that arises is whether United States can shift the position of Saudi Arabia as the largest oil producer in the world or not, the answer is that it can.

Based on the foreign policy theory according to Goldstein and Pevehouse, 2008. Foreign policies are the strategies that the governments use to guide their actions in the international arena. The government strategy to build up shale oil in United States is they improve drilling operations, so United States was able to be the winner in world oil production. Spencer Dale revealed that peak oil production increase occurred in the past year, more than 1,800 platforms operating in the United States oil and gas sector, to drill around 40 thousand new wells (VOA Indonesia, 2015) . As a result of drilling new wells, America managed to increase US oil production to 11.6 million barrels per day, up about 16% compared to last year. United States find the right technique to process the debris oil by using the technology of hydraulic fracturing (fracking) used for the extraction of oil shale is still relatively young and new. The efficiency of this technology is growing fast; Technology development of shale oil will continue to rise. The development of shale oil technology will be a big threat to Saudi Arabia and other OPEC countries (VOA Indonesia, 2015) . With the widespread use of fracking technology, American mining company may consume more petroleum products from shale layers that used to be difficult to reach. Spencer also said that this technology shows a major shift in energy production.

Low oil prices have both good and bad for United States. One side clearly inhibits the development of new energy, such as shale gas. However, the United States is importing oil, not oil exporters; they import large amounts of oil. So if the low oil prices as a whole will still benefit from this situation. With that success, it is not likely that United States will no longer be dependent on foreign oil imports. United States simultaneously dismissed news slant their oil imports from the Middle East countries clandestinely to certain political interests in United States. The success of the oil production in the United States is due to the drilling of new wells and the use of new technologies (Tjoa, 2016).

B. The Policies under Trump Administrations: No More Saudi Arabia Oil Imports.

Donald trump presidential election into the United States is a success or even a nightmare for some people, including Saudi Arabia. Since the presidential campaign, Donald trump has already stated policies which he will made. Here the writer will discuss the Donald Trump program, especially in terms of United States military and security quoted on Tribunnews (Tribunnews, 2016);

a. There will be an addition budget for the US military.
b. Border Wall will close the Mexico-US border.
c. Destroying ISIS will be a priority of the US military
d. Give an ultimatum to NATO countries not to be too dependent on the United States
e. Threatened not to protect NATO allies for their contributions to the NATO budget unfair or disproportionate
f. Would only defend NATO allies who were able to meet their financial obligations
g. Allow Japan and South Korea to have a nuclear weapon
h. Withdraw United States troops from the Korean peninsula and let Japan, North and South Korea involved in a nuclear war
i. Saudi Arabia asked for contributing troops to fight ISIS. If they refuse, Trump will stop buying oil from that country
j. Iran embargo is back. According to Donald Trump, Iran is an Islamic terrorist number 1 in the world (Tribunnews, 2016).

Based on the data above, the writer found out the point that Donald Trump will stop buying oil from Saudi Arabia. As stated in foreign policy according to Goldstein and Pevehouse (2008), which is foreign policy is the government strategy to guide their actions in international in order to achieve their national interest. In here, United States government has the strategies to threaten Saudi Arabia. In the other hand, the government also has the strategy to release the dependence of oil in Saudi Arabia, so they can more focus in producing shale oil. Trump warned that he would be ready to suspend oil imports from Saudi Arabia, but Saudi Arabia is willing to send troops to fight ISIS (Kemp, 2016). As we know that Trump is the one who will fight against terrorism. However, Trump tries to threaten Saudi Arabia as a strategy to fight against terrorism. Trump also said that Saudi Arabia had to compensate for the substantial costs to provide military protection for the United States. United States desperately needs and highly dependent on oil from Saudi Arabia a few years ago, but this time the United States has been able to achieve energy independence for their shale revolution (Kemp, 2016).

C. The Impact on Economic Sector (Trade War)

World economic turmoil was felt when the United States began producing shale oil hers. Some people get a negative impact and on the other hand have a positive impact of this oil shale formation. The development of oil shale property of the United States that increase rapidly have triggered a trade war with Saudi Arabia which is the largest oil exporter in the world, and the leader of OPEC and oil-producing countries. However, at the beginning of the United States production of shale oil, Saudi Arabia is starting to feel unrivaled with oil United States, to defeat oil in United State, Saudi Arabia did not want to cut their crude oil production in order to make the United States feel burdened and the debris began to cut oil production. However, the impact of what has been planned by Saudi Arabia to fight the United States turned back to Saudi Arabia. During the summer, crude oil prices fell due to declining world economic powers. Eventually Saudi Arabia runs the new plan by deciding not to cut production below 30 million barrels per day (Peck, 2014).

In capitalism, the new beginner will immediately join the market which has a high demand and there is a huge advantage. However, the beginner who has entered into the market usually has an edge and advanced production techniques. The aim is for those who have the most productive techniques which will dominate the market, along with falling prices through production. In this case, even though the United states in managing the oil shale has the latest technical developments, it is not considered cost-effective. The cost of shale oil production is much higher than the cost of crude oil production, by investors they were in doubt with oil shale United States.

In this case, Saudi Arabia has tried to destroy the oil shale industry by maintaining production at the current level which is intended to maintain market share, although this action will cause negative impacts and affect prices negatively. Saudi has foreign exchange reserves of $ 750 billion (Peck, 2014) , which is planned to be used in a war of oil price. Oil revenues in Saudi Arabia approximately are 85% exported. according to Moody's (Peck, 2014), Although it has foreign exchange reserves, $ 60 oil price means a fiscal deficit of 14% of GDP. This means that the government's offensive against the many social programs that were promised to be given as concessions due to the pressure of the Arab Revolt of 2011.

D. The shale oil revolution is in danger

The words of shale gas often appeared in the media in the country and abroad related to the downward trend in world oil prices. The declining trend in oil prices is not responded to the Organization of the Petroleum Exporting Countries (OPEC) by lowering the amount of production. Deliberate is apparently intended that this shale oil prices become uncompetitive. OPEC member countries somehow made to be concerned with the steps the United States to expand the debris oil. If North America (including Canada) does not longer rely on oil from OPEC members, their market share will automatically drop.

ExxonMobil also predicted United States oil production could surpass Saudi Arabia in 2016. World crude oil prices continue to decrease until the lowest level. Oil price is getting slump in the event of a price war or war bone of contention between the United States market and OPEC. West Texas Intermediate (WTI) only valued US $ 64.63 a barrel in Nymex electronic exchanges. This price was the lowest since July 2009 (Republica, 1970). Meanwhile, Brent for January delivery bearing the price of US $ 67.73 per barrel on the ICE Futures Europe exchange in London, the lowest level since October 2009 (Republica, 1970) . However, the supply of goods is still very low compared to the demand.

However, the attacks were carried out quite efficiently by Saudi Arabia where the attack makes the United States frenzy and feeling depressed. As an example is Boss Continental Resources, Harold Hamm who has a wealth of up to US $ 11 billion since July as oil prices plunged (SINDO weekly, 2014). However, he remains optimistic to solve this complex problem if oil prices above US $ 50 per barrel (SINDO weekly, 2014) . However, Stephen Chazen, who runs Occidental Petroleum, said that the industry is not healthy if the price is below $ 70 (BP America Inc, 2017) . Wood Mackenzie, a researcher, estimates that the breakeven price of around US $ 65-70 per barrel. If oil prices remain at US $ 70, he predicted that the investment will be cut by 20% and production growth can be reduced up to 10% per year (SINDO weekly, 2014). Growth in shale production would be halted if the price holds at US $ 60 per barrel.

Michael Cohen of Barclays Bank warned most companies' shale oil and shale gas to invest more than what they earn. The total debt of United States exploration and production companies has doubled since 2009 to US $ 260 billion (SINDO weekly, 2014) . If the debt markets drying up and falling profits due to lower oil prices, this could lead to a funding gap of up to US $ 70 billion per year. The result is that the investment will drop by 50%. In 2013, more than a quarter of all the oil shale investments made by firms with dodgy balance (defined as debt more than three times the gross operating profit). Some may go bankrupt.

This condition will slow the growth of United States shale production, even getting down on all fours. Some companies have slashed their budgets. According to Reuters reported, drilling permit applications has dropped to 40% in November (SINDO weekly, 2014) . However, senior energy analyst at Oppenheimer, Fadel Gheit, He stated that the United States shale oil production will continue to grow in the world oil prices fell though. There are more than 200 United States companies drilling for oil shale. The analyst from Citigroup also believes that production will continue to grow. Edward Morse, Citigroup researcher, said that one of the factors that could keep the United States shale drilling industry is there are a large number of wells that can be easily turned into productive wells. There are thousands of shale wells in Texas, Oklahoma, North Dakota, Ohio, and Wyoming.