

**CHAPTER II**

**SAUDI ARABIA: THE HISTORY BEHIND THE  
BIGGEST OIL PRODUCING COUNTRY**

In order to answer the research question in this thesis, this chapter explains more about Saudi Arabia. Saudi Arabia is located in the Arab peninsula between the Red Sea and the Gulf of Persia is a country that has the largest area among other Arab countries amounted to 2,150,000 km<sup>2</sup> (830,000 sq mi) with a population of about 30.770.375 million people in 2014 (Kemlu, n.d). The macro economic of Saudi Arabia is quite good and stable, especially in 2011 which is reflected from GDP reaching US \$ 576.8,00 billion with a percentage of GDP growth rate of 6.77% while per capita income is estimated US \$ 20.327,00 with an estimated unemployment rate of 10.8% (IECONOMICS INC, 2017).

Saudi Arabia has many international relations with other countries such as Arab countries, member countries of the Organization of the Islamic Cooperation, OPEC, and also with other countries. This is because although Saudi Arabia is geographically only has desert, Saudi Arabia has a lot of oil reserves, and it even become the biggest in the world (Raphaeli, 2003).

These abundant oil reserves of Saudi Arabia finally made a very significant position in the global political configuration. In addition to the proximity of Saudi Arabia to the United States, Saudi Arabia is also said to be the

center of Islam, as the religion of the largest in the Middle East. Because Saudi Arabia is the place where the Ka'bah located, it demands all Muslims every year to perform the Hajj in the country. In addition, the extraordinary oil exploration in Saudi Arabia makes the western countries that lack oil resources will have to always rely on Saudi Arabia as the country's main supplier of oil to them (Raphaeli, 2003).

#### **A. Saudi Arabia at a Crossroad**

The Kingdom of Saudi Arabia is located between of two continents, Europe and Africa. Geographically, it stretches from the Red Sea and the Gulf of Aqaba in the west to the Arabian Gulf in the south, while to the north, Saudi Arabia directly bordered with Jordan, Iraq, and Kuwait. Saudi Arabia also shares borders with Yemen and Oman and for the east, this oil-producing country is bordered by the Arabian Gulf, United Arab Emirates, Qatar, and Bahrain. Saudi Arabia has a barren landscape, comprising of mountains, deserts, and plateaus where the climate is hot every day exactly in the Arabian Peninsula with an area of approximately 2.2 million km<sup>2</sup> and a population of approximately as many as 31.54 million people in 2015 (United Nation, Data Country Profile).

As we know, Saudi Arabia is one of the largest oil producers in the world with approximately 25% of oil reserves production followed by 40% of gas reserves, and the rest of it are mineral (gold, silver, copper), non-metal minerals and water (Direktorat Jenderal Asia Pasifik Kementerian Luar Negeri, 2012).

Moreover, the land in Saudi Arabia generally is a mountainous and dry desert. In the northern part, they have An-Nafud desert and Rub Al Khali Desert in the southern part which is the largest desert in Saudi Arabia

### **1. The Establishment of the Kingdom of Saudi Arabia**

On 23 September 1932, Abdul Aziz bin Abdurrahman al-Sa'ud known also as Ibn Sa'ud proclaimed the establishment of the Kingdom of Saudi Arabia or Saudi Arabia (*al-Mamlakah al-'Arabiyah as-Su'udiyah*) by uniting the Riyadh region, Najd (Najd), Ha-a, Asir, and Hejaz (Raphaeli, 2003). Abdul Aziz became the first king in the kingdom. Thus, it is understood that the name was derived from the name of the Saudi royal family of Abdul Aziz al-Sa'ud.

Saudi Arabia is famous for being a place of growth and development of Islam so that in their flag there are 2 *shahada*, the Muslim sacred sentence. Saudi Arabia uses a system of kingdom or monarchy. The law that used in this country is Islamic Sharia law with regard to the practice of the teachings of Islam based on the understanding of the Prophet's companions to the Qur'an & Hadith.

### **2. Saudi Arabia's System of Government**

The system of government adopted by the Kingdom of Saudi Arabia is a monarchical autocracy, which is headed by a king as supreme leader. In addition, Saudi Arabia is included in the category of high-income countries according to the World Bank and is one of the members of the G20.

As the country that embraces an inclusive Absolute Monarchy, and also apply the Sunni Islamic conservatism in the country, of course, foreign

intervention would be contrary to the rules of implementation of the religion that developed in Saudi Arabia (Commins, 2006). With this conservatism and inclusive, the Saud Dynasty has built a very strong monarchy, standing on the cover of the concept of religion as a means of legitimacy by entering the king as patron of two Islamic religious sites which are very fundamental. Legitimacy is obtained also with decisiveness and radicalism to become acquainted with the main in Saudi Arabia (Kostiner, 1993).

In spite of it all, the kingdom of Saudi Arabia has its own uniqueness, primarily related to the phenomenon of religion and a fantastic wealth. King, Prince, Princess, and Queen have certain privileges in the political, economic, and social. They have to use their privilege in the best way to strengthen the base absolute monarchy over an all Arabian community life because they are vulnerable to revolution and reform. With monopolize all aspects of community life, the royal party considers it will create a political stability, economic and social, primarily associated with a slightly emerging role in society (Bradley, 2005).

This concept is not unconnected from potential energy resources contained in the arid soil of Saudi Arabia. Petroleum is a commodity of Saudi Arabia which is become crucial in all aspects of Saudi Arabian community life, even it can determine the direction of Saudi Arabia's foreign policy.

### **3. The Development of Saudi Arabia's Oil Industry**

The natural extreme situation does not make Saudi Arabia a country that isolated from the world. The development of the oil industry in Saudi Arabia since the 1930s makes Saudi Arabia become the most respected country although prior to 1938 Saudi Arabia was never even considered by European and American countries. It was due to the lack of resources that attracted worldwide attention. Gate of knowledge about the new Saudi Arabian was seen and known when oil was discovered there (Simmons, 2005).

Arabian American Oil Company (ARAMCO) was officially established in 1944. Production of oil in ARAMCO is commercially feasibly done, constantly and it suffered very significantly in oil production development. The situation of Saudi Arabia has begun to change and they change the social order of the system from nomadic to modern humans who settled and built urban civilization. Until now, Saudi Arabia's oil industry represents a huge oil industry. The oil-producing country was recorded in 2011 had considerable foreign assets of around 352 billion US \$ predominantly derived from aspects of the petroleum industry.

#### **B. Early Period of Saudi Arabia's Oil Discovery**

According to historical records, in general, the discovery of oil in the Middle East began when there was the discovery of oil in the area of Iran in 1880 in the form of small soil pores and it was concluded that the soil contains a lot of oil in 1908 (Gaury, 1946). The discovery was started when there were suddenly

lands fires. Previously, in the era of King Nebuchadnezzar<sup>1</sup> was also a land fire allegedly caused by the elements of the oil in his kingdom.

Major oil fields had also been discovered in 1927 in the area of Kirkuk within 2500 meters of the land fire position in the era of King Nebuchadnezzar II. This field produced a huge production. However, the Iraq War II made this field was damaged and sabotage, thus it inhibiting production. In addition to Iran and Iraq war, oil is also found in the area of Bahrain by Frank Holmes (Simmons, 2005).

The discovery of oil in various regions of the Middle East made the King Abdul Aziz think about the possibility of the discovery of oil in the country. The world financial crisis that hit the Arabian Peninsula in 1929-1933 caused the financial deficit. King Abdul Aziz had to find other revenue sources to overcome the financial deficit. When the Kingdom of Saudi Arabia was led by Abdul Aziz ibn Saud, they only had the income of economic source in the form of Zakat, personal taxes, and subsidies granted by the British government since World War I in 1914-1918 (Kamrava, 2005).

King Abdul Aziz got advice from St. John. B. Philby to conduct oil exploration in Saudi Arabia.<sup>2</sup> This suggestion was taken seriously by him. King

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<sup>1</sup> Nebuchadnezzar II was king of Babylon who reigned in the period 605 BC-562 BC. He was known as the "Great Nebuchadnezzar" and builder of the Hanging Gardens of Babylon.

<sup>2</sup> Harry St. John Bridger Philby was an important figure in the early development of the kingdom of Saudi Arabia. The politician was first arrived on Arabia in 1917. Philby was sent to Arabia as the British envoy in charge to make sure Saudi Arabia remained allied with the British. He advises the closest to King Ibn Saud.

asked Philby to find a geologist to determine if there is any potential of oil in Arabia. Philby eventually proposed Charles Crane to the King. He arrived in Jeddah in 1931.<sup>3</sup> At the initial meeting of King Ibn Saud with Crane, Crane suggested several geologists' name to the King to assist in the search for mineral resources in Saudi Arabia. Finally, the King chose geologists from the United Kingdom, Karl S. Twitchell, who previously worked with Crane in Yemen (Wynbrandt, 2004).

Twitchell started an investigation after arriving in Jeddah in 1933 to the north of the city Mecca, precisely in the area of Wadi Fatima. He did not find oil potential in the area. Finally, he continued his investigations eastward to go in the direction of Al-Hasa. Unfortunately, once again Twitchell experienced a failure to find oil potential there.

This geologist continued to find oil on the Persian Gulf coast, exactly in Dammam dome which is located not far from Bahrain which had previously been known to have petroleum resources. Twitchell thought that there was no difference between the Bahrain with the area under his feet (Simmons, 2005).

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<sup>3</sup> Crane was an American millionaire who had extensive knowledge of the Middle East.

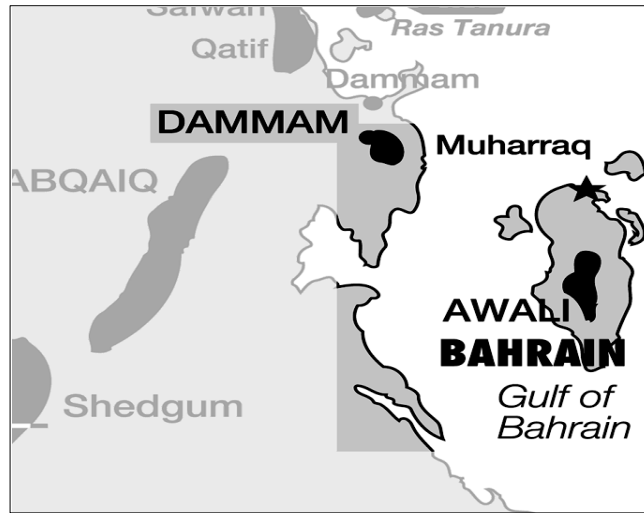


Figure 2.1

Dammam Dome Area (Simmons, 2005).

Twitchell ensured that there were geological structures that had the potential to produce oil and reported to the King Abdu Aziz. The land was believed by the royal party that could promise a result.

The royal party supported the establishment of first drill tower that officially established eighteen months after Twitchell was reported the results of his research to the King. Four months later, the people who riding a camel were sent by the royal party to carry equipment and help work on the Dammam land. The trucks followed a few months later. Artesian wells were popped up one by one until the seventh well producing oil 1500 barrels per day. Additional wells also increased the oil revenues which marks the beginning of a new era for the kingdom of Saudi Arabia (Simmons, 2005).



### **C. Saudi Arabia's Concession Policy and ARAMCO**

The world depression that hit Saudi Arabia made their economy become weaker. The initial amount of revenue amounted to £ 5,000,000/year slumped to £ 3,000,000/year. Saudi Arabia borne a quite large of deficit, which is £ 300,000/year (Wynbrandt, 2004). King Abdul Aziz ws almost hopeless to face the problem of the country at that time. Philby, as an adviser to the King, tried to take advantage of its proximity to the King to take over the concession policy of oil resources. Philby really understood how the difficulties being faced by King Ibn Saud. This made Philby think that oil can solve this problem.

Philby, as a King's advisor planned a meeting with the United States, Standard Oil of California (SOCAL) on 11 April 1932 regarding the oil concessions. In the discussion, Philby said that King Ibn Saud requires a certain amount of cash to restore the state welfare. In addition to SOCAL, Philby also held a meeting with the British on 8-9 May 1932. During the meeting, Philby provoked the British by revealing that the Americans were very interested in this concession. Of course, it was intended to make the British entrepreneur to be more assertive in lobbying against the policy of concessions and ultimately obtain the concession rights (Wynbrandt, 2004).

American and British finally brought together in a single auction session concessions. The session was held due to the same negotiating agenda. Americans use the name SOCAL represented by Lloyd M. Hamilton and Karl S. Twitchell and the British side was represented by the directors of the Anglo-Persian Oil

Company. The auction began with King Ibn Saud's offer that the concession will be left entirely to the parties who can pay 100,000 US \$. The British tried to bargain the royal party with a nominal \$ 20,000, but according to the King, the offer is too low. American tried to apply for nominal deals of 50,000 US \$. to take over the concession for a 60 years' period. The royal party returned negotiating proposals submitted by the Americans who in this case was represented by SOCAL (Simmons, 2005).

The royal party finally decided to approve the transfer of concessions to the Americans. Besides caused by factors that were still far below the nominal bidding, Britain was still regarded as the colonialist by most citizens of Saudi Arabia, especially those of the monarch who had ultimate authority. Officially, on May 29, 1933, the Kingdom of Saudi Arabia and SOCAL started to signing and ratification of the cooperation (Wynbrandt, 2004). The agreement, called the Anti-Imperialism agreement contained an agreement that the monarch should not interfere in American affairs. This provision was actually difficult for the kingdom in the observation institutionally against the company operating the concession.

In November 1933, SOCAL made subsidiary of Californian Arabian Standard Oil Company (CASOC) that the function was as the manager of concessions by agreement with the kingdom of Saudi Arabia. The 13 experts from CASOC started doing prospecting dome Dammam to establish settlements in the area of Jubail. The team was led by Max Steinke served as squad commander. The

team did a search and research on the geological structure and minerals from Dammam dome and surrounding area which was had been previously found a little potential for oil. In 1935, the first drilling had done for the Dammam dome land (Wynbrandt, 2004).

In 1936, Texas Company acquired a 50 percent ownership SOCAL concessions held that in this case represented by CASOC. (Votteler & Gale, 2003). Most ranks Texas Company

joined into CASOC board. Thereafter, began the renewal of the entire oil industry facilities. In March 22, 1938, 7th well of Dammam regions was recorded producing up to 3600 barrels of oil/day.

The increasing production continued until 1938, and it became the starting point of Saudi Arabia's oil production commercially. 1 May 1939 was the first time of a tube of oil cargo freighter filled with 500,000 barrels of oil. The ship delivered to refineries foreign country from the port of Ras-Tanura. In 1940, CASOC managed to produce as much as 3,933,903 barrels of crude oil /year (Rasheed, 2008).

In January 1944, Californian Standard Oil Company (CASOC) changed its name to Arabian American Oil Company (ARAMCO) (Simmons, 2005). The CASOC's changing name was done after World War II, which led to the production activities ceased. But after the condition was conducive, they started the reproduction and it was the first time they produce oil about 3,000 barrels/day. In 1947, King Abdul Aziz welcomed the 200 Americans who would become the

employees of ARAMCO (Bozaid, 2016). In 1948 Standard Oil of New Jersey and Socony Vacuum Oil took part in controlling ownership stake in ARAMCO. In 1949, the Saudi became one of the fifty countries that produce a lot of oil in the world.

#### **D. Modernization of Politics and Government**

The discovery of oil became a new transition point for the politics of Saudi Arabia. Prior to 1930, Saudi Arabia was only a country that deemed not to have anything in terms of resources (Gaury, 1946). Oil changed the political face of Saudi Arabia in the eyes of the world. The United States started to tie a bond with Saudi Arabia and offered to make allies. The cooperation which built between the two of them made Saudi Arabia had a high level among other Arab countries. The construction was done very rapidly to make Saudi Arabia move into a modern state.

Meanwhile, in the aspect of the system of government, Saudi Arabia still adheres to the system of absolute monarchy, which is based on Islamic law. The Saudi kingdom is still holding the Islamic values that are built before. For the persistence of the prohibition for foreigners to get into the two holy cities (Mecca and Medina), so that all state affairs that conducted outside of the city, represented by the secretary of the king, so it's slow down the negotiations decision of any affairs.

In addition, there are also changes in the administrative structure of the country. For example the formation of the council of ministers which is consisting

of ministries who has been established and new ministries such as the ministries of education, agriculture and trade. In addition, for regional politics, Saudi Arabia is hampered by the leadership of Iran. The Sunni-Shia distinction continues to be inflated to keep the Islamic world power down. Saudis who are considered to be representing Sunnis continue to be banged with Iran that is considered to represent Shia. The absence of Iran from the list of Islamic countries that combat terrorism represents the rivalry of two regional powers in the Middle East, affecting the political and security situation in a number of countries, including Syria and Yemen.

In the view of Saudi Arabia's position in the Middle East, the Saudis are indeed surrounded by Iranian influence; In the north, there is Syria under the regime of Bashar al-Assad the Shia alawiyah, in northeastern there is Iraq which is now become a Shia-majority regime intimate with Iran, and there is Houthi in Yemen bordering the southern region of Arabia and partially populated by Shia

It is not unusual then if Saudi Arabia seeks support from other regions, besides the Middle East to gain support and economic gain. Iran is considered capable of seizing Saudi oil market, as well as the leadership of the Middle East and the Islamic world.