PREFACE

Oil is the most important of the natural resources of Saudi Arabia. The Kingdom holds 20 percent of the world's oil reserves. In the exploration of oil and in the development of oil resources Saudi Arabia has looked towards the United States (US) as a major supplier of advice, expertise and qualified manpower. The development of the Kingdom's oil resources laid a firm foundation for cooperation between United States and the kingdom of Saudi Arabia. The formation of the Arabian American oil company (ARAMCO), originally known as Caltex brought Saudi Arabia and United States together in the exploration of the vast oil reserves of the kingdom. As the Kingdom has purchased the United States' skill and expertise, a close relationship has developed.

OBJECTIVE

The objective of the proposed study is to analyse and explain the oil relations between Saudi Arabia and United States during 1973-91.

Saudi oil policy encompasses all oil related decisions made by the Saudi regime. Most of these decisions have related to long-term issues:
(1) Issues such as exploration,
(2) the role of the Arabian American oil company (ARAMCO) and
(3) the development of additional productive capacity.

At times, some of these long-term decisions have become issues of international political significance. From the perspective of the world economy, however, the critically important decisions have been the short ones:
(1) how much oil to produce,
(2) to whom to sell it and
(3) at what price.

Two schools of thought offer diametrically opposed explanations of Saudi oil policy. One approach views Saudi oil policy as emanating from economic factors another from political factors, and a third from both i.e. Eclectic.
Tightly managed by its ruling family, Saudi Arabia has not aided the analytical task. It has proclaimed at times that its oil policy reflects political factors, and at times only economic ones. While Saudi officials occasionally have declined to explain shifts in their oil policy, they have also offered explanations calculated to mislead.

Seeking to break through the barriers, sharply differing analytical approaches to Saudi oil policy have emerged. Largely ignoring political factors one group of analysts explains Saudi oil policy primarily in terms of economic determinants. Largely ignoring economic factors another stresses political determinants. The proponents of each one dimensional model ignore what the others might add to analytical insight.

These approaches may be referred to as the Economic School and the Political School.

**ECONOMIC SCHOOL**

(i) According to one group of Economic School the Saudi's economic self-interest is the Saudi price-maintenance strategy. Economists like Basil Kalymon, Jay Cremer and M.L. Weitzman have argued that since the kingdom's large oil reserves will last much longer than those of other OPEC members, its optimum price path is substantially lower in the short run. According to this branch of the economic school, Saudi moderation has stemmed from the kingdom's fear that higher prices would encourage excessive conservation or the pursuit of alternative energy sources.

(ii) A second approach within the economic school argues that the drastic price increases, not the periods of price maintenance, has served the Saudi's economic self-interest. According to Economists like M.A. Adelman, the kingdom has sought to maximize its revenues by engineering drastic price increases at propitious moments marking time otherwise.

(iii) The third approach within the economic school has emphasized the kingdom's revenue needs as the key determinant of its oil policy. Economists like David Teece and Eliyahu Kanovsky and at times Political Scientists, including Theodore Moran have argued that Saudi production
and pricing decisions have been conditioned by estimates of upcoming expenditures.

Eliyahu Kanovsky, the leading proponent of the economic school argues that Saudi Arabia's oil production and pricing (decisions) are determined largely by what it views as its vital economic interests where political motives seriously conflict with economic interests. According to Kanovsky it is the latter which prevails. In Kanovsky's view Saudi Arabia had ample economic motivations for cutting production during the October 1973 oil embargo.

In explaining Saudi behaviour within the context of OPEC, analysts of the economic school have looked to the leading firm model of industrial oligopoly. Under this model, the largest firm within an oligopoly structure has a unique ability to set the market price by varying production levels as necessary. Smaller firms are in the position of 'price takers'. In this view, Edward R. Erickson has argued that OPEC is the best understood as a dominant firm price leadership situation where Saudi Arabia serves as the dominant price leader. Likewise, Alexander Brigh and Steven E. Plant have deserved that the Saudis seem to be performing the role of leading firm within OPEC.

Members of the economic school have focused time and energy on demonstrating that Saudi pricing moderation springs entirely from economic self-interest. They have adduced economic factors (e.g.) protecting the value of the kingdom, extensive oil reserves, guarding the value of dollar and guarding foreign investments, which account for the kingdom's moderate pricing stance. Drawing a lesson for American policy makers, Douglas Feith argues that neglect of basic economic truth leads to the erroneous conclusion that Saudi Arabia's price moderation is a political gesture entitling the kingdom to American gratitude.

POLITICAL SCHOOL

Within the political school, members have also held quite divergent views. Perhaps the first members of the political school were journalists, particularly those who wrote about Saudi oil policy in the years just after the first oil crisis. Either because they did not know of
economic rationale for price maintenance or because they did not find this rationale credible, these journalists saw Saudi moderation as a gift to the West. Proponents of the political school include Theodore H. Moran and David B. Golub. In the period since the first oil crisis, David E. Long, Gary Samore, Paul Stevens, and William Quandt among others have written extensive and often insightful accounts of Saudi oil policy (William B. Quandt's work does not fit well into either the political or the economic school. Nonetheless, he is considered here because he tends to fall into many of the same tempting traps as most members of the political school).

In their accounts they have pointed out a variety of additional influence on oil policy - influences beyond those mentioned by the usual journalistic accounts.

Theodore Moran's, 'Modelling OPEC Behaviour: Economic and Political Alternative's is perhaps the best work yet done on Saudi oil policy, and it deserves special attention. Moran begins by examining the assumptions and the record of a number of economic optimization models. After examining five episodes between 1974 and 1979 Moran finds Saudi behaviour inconsistent with the calculation of economic self-interest as determined by the resource base and discount rate. Moran claims that Saudis have played a price leadership role in OPEC only in extraordinary circumstances when there is exceptional political opportunity or pressure from consumer governments. He concludes that political and security concerns wag the economic tail, not vice-versa.

After his demanding standards lead him to attack these models and to conclude that they are inadequate, he tries to develop a political model based on the following proposition: that the Saudis have determined their oil policy by advancing Saudi political priorities while minimizing hostile external and internal pressures. Unfortunately Moran's political thesis does not stand up to his own standards. His article contains many insights, but it suffers from the same three broad problems that seem to plague the divergent hypotheses of the political school.

(i) First, like the journalists Moran relies on a vague and incomplete formulation of Saudi political goals. Moran's
political thesis begs the questions: What have been the regime's political priorities, what kinds of forces have constituted hostile external and internal pressures. Without answering these questions, Moran simply states a historical truism: regimes throughout history have first sought to ensure their own survival and have then pursued a set of political priorities.

Second, in distinguished political priorities from economic priorities Moran and others have tended to cast off as irrelevant all economic factors. Even if they are correct in arguing that political factors have been important, they present no evidence to suggest that the Saudis have utterly ignored their perception of their economic self-interest. Moreover, the distinction between economic and political self-interest at times seems artificial. The regimes interest in the survival of OPEC, for example, can only be described as both economic and political.

Third, Moran and others in the political school imply too strong a distinction between political priorities and the pursuit of security. The Saudi regime, has perceived itself as so vulnerable that almost all of its political priorities have been security related.

David Golub argues that security related concerns dominate Saudi oil policy. In his analysis of two periods (1973-74) and (1978-1979) Golub emphasizes regional motivations (such as efforts to appease Iraq and Iran) and international motivations, namely, efforts to shore up the American connection or to prod the United States to take a desired step. Golub concludes that his analysis calls into question the importance of the Saudi desire to maximize oil sector profits.

David E. Long has stressed the need to ensure regional and international political and economic stability. While Gary Somore has argued that the Saudis feel a need for close relations with the United States, Paul Stevens has claimed that the Saudis seek a wider voice in Arab and world affairs.

The proponents of these two schools of thought do not vote strictly along tribal lines. Dankwart A. Rustow, a political scientist argues that Saudi oil policy has been
mainly or wholly on economic motives of long range self-interest and on their concern to maintain their ascendancy within OPEC. For Saudi rulers, Rustow stresses, the price of oil is far too important to be used as an instrument in short-term political maneuvers.

Fereidun Fesharaki, an economist and David T. Issak argue that the US-Saudi connection provides the most relevant explanation of the Saudi oil policies. Saudi oil decisions, assert Fesharaki and Issak, reflect Saudi dependence on the United States for defense of the nation from foreign attack and for diplomatic efforts aimed at defusing the Arab-Israeli time bomb.

ECLECTIC APPROACH

Taking issue with these one-dimensional approaches, several analysts have proposed what may be termed an 'Eclectic approach' to Saudi oil policy.

William B. Quandt, a Political Scientist has observed that beneath Saudi oil decisions generally lie economic and political factors which are intertwined in unusually complicated ways. He has discussed a linkage between Saudi oil policy and the Arab-Israeli conflict.

Thomas R. McHale, an economist argues that Saudi oil policy reflects historical influences, both external and internal and the play of contemporaneous political and economic factors.

Eli Arom argues that Saudi rulers weigh economic and political factors in framing an oil policy designed to ensure the survival of the existing regime.

Apart from the analysis of Economic, Political and Eclectic approaches the oil relationship between Saudi Arabia and United States has been analysed through other dimensions. Eli Arom visualise the relationship between the two countries as of 'Asymmetrical nature'. Emile Nakleh has categorised the relationship between Saudi Arabia and United States as 'Special relationship'. However, scholars like David E Long consider the relationship between the two countries as 'Ambivalent'. Other scholars like Dankwart A. Rustow consider the relationship as 'Special' and 'Ambivalent' both.
This study relies on published materials of primary and secondary sources.

METHODOLOGY

Descriptive and analytical methodology has been employed in the present study.

Outlines of the Argument:

CHAPTER I: OIL IN SAUDI ARABIA'S ECONOMY

1.1 Oil Production in Saudi Arabia
1.2 Types of Crude Oil
1.3 Major Oil Fields
1.4 Saudi Arabian Oil Industry
1.5 Organisational Structure of Oil Sector
1.6 Saudi Arabia's Oil Policy
1.7 Impact of Oil on Saudi Economy

CHAPTER II: THE 1973 OIL EMBARGO AND ITS IMPACT ON OIL RELATIONS OF SAUDI ARABIA AND US

2.1 Importance of Oil
2.2 The 1973 Oil Embargo
2.3 Conspiracy Theory of Oil Crisis
2.4 Oil Price
2.5 US Threats of Military Intervention
2.6 US Energy Policy
2.7 Nixon, Ford, Carter, Reagan and Bush Administration


3.1 Post-embargo Relationship
3.2 Special Relationship
3.3 US-Saudi Arabian Joint Commission on Economic Co-operation
3.4 Programme of Joint Commission
3.5 Evaluation of Joint Commission
3.6 Creation of International Energy Agency
3.7 Structure of International Energy Agency
3.8 Post King Faisal Era
3.9 The Doha Decision
3.10 Shah's Visit to Washington

CHAPTER IV: IRANIAN REVOLUTION AND ITS IMPACT ON OIL RELATIONS OF SAUDI ARABIA AND US

4.1 Iranian Revolution
4.2 Impact on Oil Situation
4.3 Saudi Arabia, US
4.4 Hostage Crisis
4.5 Iran, Saudi Arabia and OPEC
CHAPTER V: IRAN-IRAQ WAR AND ITS IMPACT ON OIL RELATIONS OF SAUDI ARABIA AND US

5.1 Iran-Iraq War
5.2 Importance of Oil
5.3 Impact on Oil Situation
5.4 Saudi Arabia, US
5.5 Price Rise
5.6 Oil Situation in 1982
5.7 Re-emergence of Iran
5.8 OPEC's 1983 Pricing Decision and Production Agreement
5.9 Saudi Ambivalence towards Swing Role
5.10 Barter Deal
5.11 Oil Situation in 1985
5.12 Abandonment of the Swing Role
5.13 Netback Deals
5.14 Price Collapse
5.15 Impact of Price Collapse
5.16 Saudi Oil Situation
5.17 US Oil Situation
5.18 Conquest of Faw Peninsula
5.19 Enter the Super Power
5.20 Last Stage
5.21 Saudi Arabia, Iran
5.22 Post Iran-Iraq World Oil Market

CHAPTER VI: GULF CRISIS AND ITS IMPACT ON OIL RELATIONS OF SAUDI ARABIA AND US

6.1 Gulf Crisis
6.2 Zero Sum Game Theory
6.3 Impact on Oil Situation
6.4 World, Saudi Arabia, US

CHAPTER VII: CONCLUSION.

In the opening chapter an attempt has been made to describe the importance of oil in Saudi Arabia's economy, types of crude oil found in Saudi Arabia and major oil fields in Saudi Arabia. The chapter further describes about the origin and growth of oil industry in Saudi Arabia, organisational structure of oil sector, Saudi Arabia's oil policy and overall impact of oil on Saudi Economy.

The second chapter encapsulates the importance of oil in International Relations. It describes about 1973 oil war, the conspiracy theory approach to study the 1973 oil crisis leading to energy crisis and escalation in oil prices further to threats of US military intervention and energy policy of Nixon, Ford, Carter, Reagan and Bush administration.
The major objective of third chapter is to describe the post embargo relationship between Saudi Arabia and United States leading to Special relationship, formation of US-Saudi Arabian Joint Commission on Economic Cooperation, its evaluation and creation of International Energy Agency. It further tries to describe the oil relations between the two countries in post-king Faisal era, the Doha decision about reduction in oil prices, Special Drawing Rights and Shah's visit to Washington.

The fourth chapter is devoted to explain the impact of Iranian revolution on oil situation of Saudi Arabia and US. An attempt has also been made to explain about the hostage crisis.

The fifth chapter attempts to describe the impact of Iran-Iraq war on oil situation of Saudi Arabia and US. It also attempts to explain price rise, OPEC's pricing decision, ambivalence to swing role, Barter deal, Netback deals, impact of price collapse on oil situation of Saudi Arabia and US, conquest of Faw peninsula, last stage of Iran-Iraq war and finally the post Iran-Iraq world oil market.

The sixth chapter explains about the Gulf crisis and the application of zero sum game theory to analyse the crisis. It further tries to explain about the impact of Gulf crisis on world oil situation, Saudi oil situation and US oil situation.

In the last chapter, an overall concluding derivation of all the chapters has been made.