

## Black Gold Rush in the Near East: A Century of Oil Relations

Chelsea Cooley

Over the course of the twentieth century, the discovery of oil in Saudi Arabia caused the United States and the United Kingdom to make military and foreign policy decisions based on the need to secure a steady supply. The Gulf States also made political decisions based on the desire to maintain the enormous influx of wealth introduced into the region with the discovery of oil. Both the US and the UK had stakes in Gulf oil since their countrymen first discovered it there at the turn of the century. Oil was discovered in Iran in 1908 by the UK's William D'Arcy and in Bahrain in 1932 by Standard Oil of California.<sup>1</sup> The lives of people today in Saudi Arabia, the US and the UK are shaped by events resulting from these discoveries and the economic and military necessity for oil.

Britain needed large amounts of oil during WWI, when it used the oil-fueled military tank for the first time. The enemy German army still traveled by railway. The switch to oil-powered tanks eventually helped the Allies win the war, but eighty percent of the Allies' oil came from Standard Oil of New Jersey (later Exxon), causing US officials to fear they'd run out of the precious commodity. The government prompted US oil companies to follow Anglo-Persian entrepreneur William D'Arcy's lead and turn to the Persian Gulf. Unfortunately, British companies already had a monopoly in Iraq, Iran, and the smaller Gulf States.<sup>2</sup> The British Iraq Petroleum Company (IPC) had the most holdings in the Middle East, so Standard Oil of New Jersey decided to join the IPC. Other members of the IPC

included Socony-Vacuum (later Mobile), BP, Royal Dutch/Shell, and the state-owned French company *Compagnie Francaise Petrole*. All members made a pact called the "Red Line Agreement" not to embark on independent exploration without the express approval of the other members. This agreement allowed British companies to maintain a great deal of control over the Mideast oil market even with the influx of new international companies in the region. The territory outside of the "Red Line" included Saudi Arabia.<sup>3</sup>

In 1932 the American company Standard Oil struck oil in Bahrain, an island only 20 miles from Saudi Arabia, sparking US interest in the area for the first time. Standard Oil of California (Socal) chose to operate outside of the IPC and its strict limitations on exploration. When the IPC required Gulf Oil, another American company, to sell its Red Line concessions, Socal bought Gulf's Bahrain concession for \$50 thousand. After Socal found oil, both Socal and the IPC approached King Abdel Aziz for rights to explore Saudi Arabia and possibly drill for oil. In 1933, the Saudi king gave the American company the concession rather than the British-controlled IPC because he thought Americans showed less interest than the British in colonial intervention. As payment, Socal gave the king L30,000 in gold as an interest-free loan followed by L20,000 more in the next eighteen months. The king agreed to pay back the loan in future oil revenue, if it ever materialized, and he secured for himself a yearly payment of L5000.<sup>4</sup> Unlike all other concessions thus far,

Americans owned this one exclusively, its size exceeding the combined states of Texas, New Mexico and Arizona. SoCal soon formed a subsidiary company called the California Arabian Standard Oil Company (Casoc).<sup>5</sup> Suddenly, there existed an alliance between at least one major American oil company and the emerging oil-rich country of Saudi Arabia. US interest in the region only increased as Saudi oil success continued.

More American companies got involved in the growing market in Saudi Arabia as more oil emerged in the country. In 1936, the IPC denied Casoc access to its consumer markets, so Casoc chose to merge with Texas Oil (later Texaco, now part of Chevron), which controlled markets in Asia but didn't possess enough oil to service them.<sup>6</sup> The deal allowed Texas Oil 50% interest in the Casoc concession.<sup>7</sup> Saudi oil fields continued to prove their worth when the well "Dammam-7" at Dhahran blew in March 1938, producing more than 1500 barrels of oil per day.<sup>8</sup> Saudi Arabia quickly became a major oil player, especially in comparison to the US whose wells only produced 100 barrels per day. King Abdel Aziz's first royalty check from Casoc exceeded \$1.5 million, and he quickly augmented Casoc's exploration space by 80 thousand square miles. The new area gave the company rights to over half of Saudi territory. In 1939, Casoc averaged 11 thousand barrels per day, and within ten years, it averaged 477 thousand barrels, accounting for five percent of total world oil production and 35 percent of Middle-East production.<sup>9</sup>

The ongoing oil success in Saudi Arabia showed American statesmen that companies who depended on American oil alone stood no chance of competing with the emerging market in the Middle-East. Furthermore, Saudi Arabia remained a reliable military ally

to the US and the Allies during the Second World War by providing Allied forces access to essential strategic air routes across the Arabian Peninsula. President Roosevelt also came to realize the importance of Saudi oil for US success at war. These combined factors prompted the President to create the Petroleum Reserve Corporation (PRC) in 1942 "to acquire petroleum, petroleum products, and petroleum reserves outside the continental US."<sup>10</sup> Furthermore, as a result of its proven economic and military value to the US, in 1943 Roosevelt qualified Saudi Arabia for land-lease assistance. Confidence in this decision was strengthened when Saudi Arabia provided safe passage for war supplies through the Persian Gulf waterway from the US and Europe to the Soviets.<sup>11</sup> Saudis found money from land-lease assistance essential, since the usual income from Muslim pilgrims making the *hajj* dried up during the war.<sup>12</sup>

President Roosevelt wanted the US government to have a more direct role in Saudi Arabian oil, so he asked Secretary of the Interior Harold Ickes to negotiate a deal with Casoc (which changed its name to Aramco, the Arab American Company, in 1944) allowing the US government to purchase a majority of its shares. With the US government literally owning stock in Aramco, the company's potential for growth greatly increased. In fact, between 1944 and 1950, Aramco's gross production of crude oil increased from 21 thousand to 548 thousand barrels per day. The growth was enormous but necessary, since the reconstruction of Europe after WWII depended on this oil. Although the US at the time only imported six percent of its oil, and Saudi Arabia provided only eight percent of that amount, Western Europe depended almost entirely on Persian Gulf oil.<sup>13</sup>

In February of 1945, not only realizing the importance of Saudi oil for the war effort but also concerned by the dwindling supply of US oil, FDR met with the Saudi King Abdel Aziz ibn Saud aboard the USS Quincy on Great Bitter Lake south of the Suez Canal.<sup>14</sup> FDR determined that the “defense of Saudi Arabia is vital to defense of the United States.”<sup>15</sup> The meeting encouraged the Saudi leader, who remained neutral in the war effort, to officially support the Allies in March 1945. The meeting also resulted in the President’s first conversation with an Arab leader about the escalating situation in Palestine. Before the meeting ended, FDR promised not to change policy in Palestine without first consulting both Jews and Arabs. He also assured the King that he would never do anything hostile to Arabs, and put the promise in writing one week before his death in April.<sup>16</sup> This promise soon caused tension between the two countries, putting US oil interests at risk.

Relations between the US and Saudi Arabia became strained for the first time in November of 1947, when the UN passed a resolution supporting the partition of Palestine.<sup>17</sup> This led the way for the United States to recognize the State of Israel in May of 1948. The Presidential administration in the US initially feared this might negatively affect oil relations between the US and Saudi Arabia. King Aziz saw the action as a betrayal, but did not withdraw oil concessions, realizing that they were vital to Saudi Arabia’s economic survival.<sup>18</sup> The US gave the country \$99 million in aid between 1940 and 1947, and it expected only 25% of the loan to be repaid.<sup>19</sup> Its financial relationship with the US also played a role in Saudi Arabia’s decision to send only a small battalion into the Arab-initiated fray in

the newly-declared state of Israel, even as Egypt, Syria, Transjordan, Lebanon, and Iraq invaded the state in full force. By remaining essentially neutral, the Saudi government managed to preserve its relationship with the US. His neutrality also caused Aziz to come under attack from other Arab leaders, but the King’s focus lie elsewhere.<sup>20</sup> Aramco struck oil at Ghawar in 1948, an area soon classified as the world’s largest oil deposit, and the company needed more markets to buy its new excess of oil. It merged with American companies Standard Oil of New Jersey and Socony Vacuum, who left their IPC contracts.

The King trusted the American companies; his biggest fear was that they might one day merge with the likes of British imperialists. He remained unaware that in 1949 the US National Security Council secretly approved of a plan to destroy Saudi oil fields in the case of a Soviet attack. The CIA also secretly shipped explosives into the kingdom to prepare for this possibility.<sup>21</sup> Like most foreign relations during the Cold War, US interest in Saudi Arabia was linked to US competition with the USSR, and US intentions in Saudi Arabia weren’t always transparent. However, America’s perceived power over Saudi oil was not absolute for long.

Saudi Arabia began taking interest in garnering more profit from its domestic oil supply. In 1950 the Saudi king insisted on the “50/50 Agreement,” demanding an equal share in Aramco revenue. In a clever manipulation of the US tax code, Saudi Arabia increased its profits by taxing Aramco’s profits. The code said a company operating in a foreign country could deduct the amount of taxes it paid to a host government from its US taxes. In this way, Saudi Arabia increased its profits

at no expense to Aramco.<sup>22</sup> This seemed like a mutually beneficial solution to Saudi demands, but the trend for Arab control of Arab oil continued and became widespread. In 1951, riots in Iran caused oil to be nationalized by Prime Minister Mossadeq. In September of 1960, the Organization of Petroleum Exporting Countries (OPEC) was created at the Baghdad Conference, and its founding members were Iraq, Kuwait, and Saudi Arabia, and Iran.<sup>23</sup>

The Iranian government proved itself a threat to independently controlled oil companies, and by 1967, the US began to question Iran's intentions concerning oil and its relationship to the rest of the Middle East. In a conversation with US government officials, the Shah insisted he found it in Iran's best interest to remain on good terms with Saudi Arabia. He realized oil companies shared this interest, and US interest paralleled that of the oil companies.<sup>24</sup> However, the situation with Iran intensified in 1968 when the UK announced its intention to withdrawal military support from the Persian Gulf within the next three years. Iran expressed an interest in taking Britain's place in the military control of the Gulf; this interest had a major connection to the oil industry since Britain's withdrawal from the region effectively ended its commitment to aid Kuwait in case of an attack. Kuwait had large oil reserves and sat in a strategic location between Saudi Arabia, Iraq and Iran. The US government admitted in an internal foreign policy document that the UK withdrawal would end "a system which has played a major political and security role for the West in the Gulf region for a century and a half." Twenty US oil companies based their business operations in Iran and Saudi Arabia, and these companies

consistently brought large amounts of money into the US, adding to concerns for the safety of the region. Furthermore, in 1968 the Gulf produced a third of the world's oil and two thirds of the world's crude reserves. The UK obtained 60% of its oil from the Persian Gulf and the US obtained 85% of its military oil from the area.<sup>25</sup>

US fears came to fruition during the Iranian Oil Crisis of 1973. In October, (one of) the Arab-Israeli War(s) commenced. Saudi Arabia responded to US support of Israel by instituting an oil embargo and production cuts. This caused inflation in the US and concern about foreign investment from oil producing countries. Oil companies soon found themselves in a political crossfire between Iran and Saudi Arabia, both Arab countries with economic interest in maintaining alliances with the US. Officials from the US government, including Secretary of State Henry Kissinger, met with the heads of oil companies based in the Mideast several times throughout the year.<sup>26</sup> The US considered seizing Saudi oil fields by force, but the two countries eventually patched up their relationship through a shared opposition to communism and common economic initiatives. The US eventually made a deal to continue its oil business with Saudi Arabia.<sup>27</sup>

The association between the US and Saudi Arabia proved mutually beneficially for both countries. Saudi Arabia's 1973 acquisition of a 25% participation interest in Aramco increased the country's interest in reconciliation with the US.<sup>28</sup> The instability of oil in other countries in the Mid-East increased US confidence in Saudi Arabia thanks to the stability of its product. In 1979, the Iranian Revolution led by Ayatollah Khomeini

caused oil in Iran to be completely nationalized, and Saudi Arabia made all its excess crude oil available to Aramco (at the expense of other customers) after the Revolution caused an oil shortfall in the US.<sup>29</sup> The US got most of its oil from Saudi Arabia that year (1347 thousand barrels per day).<sup>30</sup> The US continued to buy a large portion of its oil from Saudi Arabia even after the latter acquired 100% participation interest in Aramco in 1980, buying out American companies completely by purchasing almost all of the company's assets. (The company changed its name to Saudi Aramco in 1988.)<sup>31</sup>

Iraq eventually surfaced as the major threat to Mideast oil stability, for the first time when it entered into a war with Iran. Conditions in Iraq directly affected US foreign policy in the region because the US considered any instability in the area a threat to US interest in Saudi Arabian oil. In September of 1980, Iraq invaded Iran to reclaim Shatt al-Arab at the border between the two states. In the process, Iraq took over oil-rich Iranian Khuzestan. Neither Saudi Arabia nor the US showed opposition to this development since neither country wanted Iran to emerge victorious from the conflict – Saudi Arabia for ethnic and religious reasons, the US because of Iran's ties to the Soviet Union.<sup>32</sup> Nonetheless, the 1980-88 Iran-Iraq War devastated Iraq's economy, prior to which Iraq made \$27 billion per year in oil revenue.<sup>33</sup> In 1984, the "Tanker War" between Iran and Iraq put Persian Gulf oil traffic at risk as Iran targeted Iraqi oil tankers travelling by land.<sup>34</sup> This prompted Reagan to secretly ship 400 Stinger missiles to Saudi Arabia after Iran targeted Saudi and Kuwaiti ships in the Gulf.

In a fateful turn of events for US involvement in the Middle East, in August of 1990 Iraq invaded Kuwait over an oil dispute. US President George HW Bush, Margaret Thatcher of the UK, and the Soviet Union's Mikhail Gorbachev all wanted to remove Iraqi dictator Saddam Hussein from power, fearing he planned to target Saudi Arabia. An attack on Saudi Arabia would put the acquisition of oil at risk for all three countries, the US especially. The UN ordered economic sanctions against Iraq and also sent forces, led by the US, to protect Saudi oil. The action was termed operation Desert Shield. After talking to then Secretary of Defense Dick Cheney, Saudi Arabia agreed to host US troops and equipment. Secretary of State James Baker received UN backing when he proposed the UN evict Iraq from Kuwait by force if Iraq didn't withdraw from Kuwait peaceably by January 19, 1991. On that date, with UN demands unmet by Saddam Hussein, US Congress approved the use of force in Iraq. President HW Bush announced the beginning of the Gulf War which comprised of a 38-day "Desert Storm" followed by a four-day ground assault to quickly evict the Iraqis from Kuwait. This latter leg came to be known as the "100-hour War." In total, 303 died in the Gulf War and fewer than 500 were wounded.<sup>35</sup> The US managed to oust Iraq and its opportunistic dictator from a country very near to its precious interests in Saudi Arabia, but US forces did not oust the dictator himself. Hussein and his imperializing interest in oil proved to be a torment to the younger Bush administration 10 years in the future, a point of significance since oil continues to sustain Iraq's economy. On average, the commodity brings in 95% of the country's foreign exchange earnings.<sup>36</sup>

Saudi Arabia put its safety from Iraq to good use by increasing its strength in the oil market, a move that was beneficial to its economic relationship with the US. Aramco became the most powerful player in the Saudi oil market in 1993, when it took charge of Saudi Arabia's domestic refining, marketing, distribution, and joint-venture interests. Soon thereafter, the Kingdom named Aramco president and CEO Ali Al-Naimi its Minister of Petroleum and Mineral Resources. US business interest became involved in this particular concentration of power in 1998 when Aramco, Texaco, and Shell established Motiva Enterprises LLC, a refining and marketing joint venture, in the US.<sup>37</sup> In 2000, Petroleum Intelligence Weekly ranked Aramco the number-one oil company in the world for the eleventh straight year based on crude oil reserves and production. That same year, Aramco established Gulf Operations Ltd to manage governmental petroleum interests in the Offshore Neutral Zone between Saudi Arabia and Kuwait.

Aramco's success and ties to the US did not help to negate the fact that 15 Saudi nationals directly participated in the terrorist attacks of September 11, 2001 in New York City.<sup>38</sup> The event caused an anti-Saudi outcry among the US citizenry. President Bush quickly tried to quell the anger toward Saudis; an administration spokesperson told reporters in October that the president was satisfied with the cooperation he received from Saudi Arabia for the "war against terror."<sup>39</sup> Nonetheless, since the September 11 attacks, Aramco went to great lengths to help assert Saudi Arabia's modernity. The company began a program to build the King Abdullah University of Science and Technology, and in 2008 it launched a project to build the King Abdulaziz

Center for Knowledge and Culture in Dhahran.<sup>40</sup>

Saudi Arabia is still a major US oil partner. As of 2008, Saudi Arabia led most other suppliers of oil to the US, second only to Canada.<sup>41</sup> Today Saudi Arabia owns the world's largest proven oil reserves at an estimated 262 billion barrels. In fact, one-fourth of the world's proven oil resources exist within Saudi Arabia, and the country relies on oil for 90-95% of its total export earnings.<sup>42</sup> Other oil-rich countries include Iraq, Iran, Libya, Venezuela, and Sudan, but they do not enjoy the same partnership with the US as Saudi Arabia does. This is due in part to the fact that Saudi Arabia has proven itself a "swing producer," putting oil on the market in times of crisis. It holds 85% of OPEC's spare capacity.

US dependency on Saudi oil continued on from the point when Standard Oil first discovered the commodity there at the beginning of the twentieth century. US foreign policy often mirrored US oil dependence, a fact exemplified by FDR and his successors' commitment to an alliance with Saudi Arabia and George HW Bush's entrance into the first Gulf War. The oil market also directly impacted foreign policy in Saudi Arabia, a country that did not commit to extensive military action in the Arab-Israeli wars so as to maintain its vital oil-trading connection with the US. We see from these examples that the world as we know it today is shaped by political events from the past reflecting the global need for oil.

## ENDNOTES

1. BP, "Our history," BP, <http://www.bp.com>.
2. Rachel Bronson, *Thicker Than Oil: American's Uneasy Partnership with Saudi Arabia* (New York:

- Oxford University Press, 2006),  
15.
3. Bronson, 16.
  4. Bronson, 17.
  5. Bronson, 18.
  6. Bronson, 16.
  7. Saudi Aramco, "Our Story,"  
Saudi Aramco,  
<http://www.saudiaramco.com>.
  8. Bronson, 18.
  9. Bronson, 19.
  10. Bronson, 39.
  11. Bronson, 37.
  12. Bronson, 40.
  13. Bronson, 20.
  14. Bronson, 36.
  15. Bronson, 24.
  16. Bronson, 40.
  17. Bronson, 52.
  18. Bronson, 46.
  19. Bronson, 40.
  20. Bronson, 54.
  21. Bronson, 58.
  22. Bronson, 55.
  23. OPEC, "Brief History," OPEC,  
<http://www.opec.org>.
  24. Edward H. Thomas,  
"Conversation with Shah of Iran  
on OPEC and Oil Matters,"  
National Security Archive,  
<http://nsarchive.chadwyck.com>.
  25. Department of State, "Future U.S.  
Policy in the Persian Gulf,"  
National Security Archive,  
<http://nsarchive.chadwyck.com>.
  26. Willis C.C. Armstrong, "Iranian  
Oil Crisis," National Security  
Archive,  
<http://nsarchive.chadwyck.com>.
  27. Henry Kissinger, "Oil Agreement  
with Saudi Arabia," National  
Security Archive,  
<http://nsarchive.chadwyck.com>.
  28. Saudi Aramco
  29. Kingman Brewster, Jr., "Saudi  
Arabian Oil Production,"  
National Security Archive,  
<http://nsarchive.chadwyck.com>.
  30. Energy Information  
Administration, "US Imports by  
Country of Origin," Energy  
Information Administration,  
<http://tonto.eia.doe.gov>.
  31. Saudi Aramco
  32. Bronson, 163.
  33. Department of State,  
"Background Note: Iraq," US  
Department of State,  
<http://www.state.gov>
  34. Bronson, 164.
  35. Mark Samels, "American  
Experience: The Presidents:  
George HW Bush," PBS,  
<http://video.pbs.org>.
  36. Department of State,  
"Background Note: Iraq," US  
Department of State,  
<http://www.state.gov>.
  37. Aramco
  38. Christopher M. Blanchard,  
"Saudi Arabia: Background and  
US Relations,"  
<http://fpc.state.gov>.
  39. Alfred B. Prados, "Saudi Arabia:  
Post-War Issues and U.S.  
Relations," National Security  
Archive,  
<http://nsarchive.chadwyck.com>.
  40. Aramco
  41. Energy Information  
Administration, "US Imports by  
Country of Origin," Energy  
Information Administration,  
<http://tonto.eia.doe.gov>.
  42. Bronson, 21.

## BIBLIOGRAPHY

Blanchard, Christopher M. "Saudi Arabia: Background and US Relations." Department of State. <http://fpc.state.gov> (accessed November 1, 2009).

BP. "Our history." BP. <http://www.bp.com> (accessed November 1, 2009).

Bronson, Rachel. *Thicker Than Oil: American's Uneasy Partnership with Saudi Arabia*. New York: Oxford University Press, 2006.

Department of State. "Background Note: Iraq." US Department of State. <http://www.state.gov> (accessed November 1, 2009).

Department of State. "Conversation with Shah of Iran on OPEC and Oil Matters." National Security Archive. <http://nsarchive.chadwyck.com> (accessed December 18, 2009).

Department of State. "Future U.S. Policy in the Persian Gulf." National Security Archive. <http://nsarchive.chadwyck.com> (accessed November 1, 2009).

Department of State. "Iranian Oil Crisis." National Security Archive. <http://nsarchive.chadwyck.com> (accessed December 18, 2009).

Department of State. "Saudi Arabian Oil Production." National Security Archive. <http://nsarchive.chadwyck.com> (accessed November 1, 2009).

Department of State. "Saudi Arabia: Post-War Issues and U.S. Relations." National Security Archive. <http://nsarchive.chadwyck.com> (accessed December 18, 2009).

Energy Information Administration. "US Imports by Country of Origin." Energy Information Administration. <http://tonto.eia.doe.gov> (accessed November 1, 2009).

Kissinger, Henry. "Oil Agreement with Saudi Arabia." National Security Archive. <http://nsarchive.chadwyck.com> (accessed December 18, 2009).

OPEC. "Brief History." OPEC. <http://www.opec.org> (accessed November 1, 2009).

Saudi Aramco. "Our Story." Saudi Aramco. <http://www.saudiaramco.com> (accessed November 1, 2009).

Samels, Mark. "American Experience: The Presidents: George HW Bush." PBS. <http://video.pbs.org> (accessed November 1, 2009).