

## ***Saudi-US relations between the revolution of Iraq and the formation of OPEC<sup>1</sup>***

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The title is a bit misleading, because it is nearly impossible to put it into one sentence what had happened during these two short years. The Arab Cold War reached its summit this time, the role of the previously Western-aligned Iraq has changed completely, and the question of petroleum has wandered from the jurisdiction of governmental politics to private sphere. Despite this chaotic period one thing hasn't changed, the petroleum order.

Events occurred in the spring and summer of 1958 had a crucial effect on the era for several reasons. During the emergence of the Lebanese civil war crisis in May 1958, the United States had not yet used the Eisenhower-doctrine (officially it couldn't have used it), however, after the Iraqi revolution broke loose the government acted immediately, it sent troops to this region.

However, this resulted in serious consequences. It is true that Lebanon could keep its Western-bond government and Jordan led by the Hashemite-dynasty could feel more safe, however, through the intervention the arab nationalists' anti-western approach intensified highly and that increased Nasser's popularity and political power even more. This resulted in an interesting paradox. The United States couldn't contain arab nationalism so in order to adapt to the politics of the region and maintain its status it needed to turn its back on his former allies the conservative monarchy of Saudi Arabia and Jordan. In addition it should have relinquished its Middle-Eastern petroleum interests and military bases. It is obvious that the United States was in an awkward position. How to get out from it was a question of debate between President Eisenhower and his Secretary of State; Dulles. The latter thought that Nasser's aim was to seize Middle-Eastern petroleum and to blackmail Europe (and especially Great Britain) and they could not allow for that under any circumstances. The President, however, thought that their position was unstable at best in the region and there was a good possibility that they would be driven out from the Middle-East so they might as well continue and try to achieve their objective named after the President himself namely the economical development of the region. The difference is that in this case the United States would have less influence on the economical life of the region than it was previously planned. After all the half official position among officers of the government turned out to be an acceptance of arab nationalism and the idea of cooperation with Nasser. They paid much attention that each and every petroleum producing countries should be treated

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<sup>1</sup> I'd hereby like to thank Szita Nikolett for the grammatical checking of this article.  
OPEC stands for: Organization for Petroleum Exporting Countries

differently to try and keep them from establishing close cooperation thus making sure they could not unify united.<sup>2</sup>

This doctrine was useful when the revolution of Iraq which was previously thought as nasserist turned out to be not so much nasserist as government officials thought it would be. General Abdel Karim Qasim who just rose to power had a powerful communist support and right after his inauguration started to criticize Nasser. In addition he refused even the thought of Iraq joining to the United Arab Republic. So he soon confronted the Egyptian president. The main reason for this was that Khalid Bagdash's Syrian communist party has got an external supporter. Keep in mind that this party was the only one in Syria that was relatively independent from Nasser's influence. Therefore, Nasser has confronted the communists but this created animosity from the Soviet Union and at the same time the Egyptian president tried to get on the better-side of the conservative monarchies. For this reason there was a summit between Nasser and Feisal in august 1958.<sup>3</sup> It especially came in handy for Feisal because at that time in Saudi Arabia there was a very serious crisis of internal politics; workers started riots against ARAMCO<sup>4</sup> because of bad working conditions, very low salaries and the incapability of king Saud II. Saud II couldn't use the money of the country well, he spent most of the incomes of the state on keeping himself in power and thus he didn't care about the development of his country. With the formation of the United Arab Republic and the growing pressure of the arab nationalism his brother Feisal took over the throne.<sup>5</sup>

Nasser really feared Qasim, in fact so much that he was willing to cooperate even with the United States in order to "beat the communists". The Eisenhower administration considered this as his own success; not only did it manage to contain arab nationalism but also turned it against communism. However, the USA – mainly because of Israel and it's supporters – could not promote the arab nationalism openly so it tried to influence it in an indirect way; to lessen opposition between the states of the region.<sup>6</sup>

For this reasons the USA approved Feisal's aim to pursue neutral politics. With this not only did he manage to decrease the threat of arab nationalism but it also gave him a chance to achieve the necessary economical reforms required for the modernization of his monarchy (IMF recommendations, decreasing imports, which mainly consisted of Saud II's luxury goods). Moreover, the United States cancelled the Saudi's debt for an indefinite time concerning weapon purchase of 1957 and the USMTM<sup>7</sup> of 1951. They knew that in the long run it would be better for them if Feisal could use Nasser's occupation and use reforms

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<sup>2</sup> Nathan J. Citino: *From Arab Nationalism to OPEC*. Bloomington, 2002. p. 146-147; *Foreign Relations of the United States 1958-1960*. volume 12. general regional chapter (from now on FRUS-NE) document number 35. (p. 114.)

<sup>3</sup> *Id.* p. 148.

<sup>4</sup> Arabian American Oil Company

<sup>5</sup> There is more than one reason for this and it is not a simple question. For more information on the subject see: Rachel Bronson: *Thicker than Oil*. New York, 2006. p 74-77. Also *Foreign Relations of the United States 1958-1960*. volume 12. Saudi Arabia chapter (from now on FRUS-SA) document number 311. (p. 719.)

<sup>6</sup> Nathan J. Citino: *Id.* p. 148-149.; FRUS-NE Nr. 51 and 52 (p. 187 and p. 200).

<sup>7</sup> United States Military Training Mission. A treaty signed in 1951. which is still in effect. This treaty allows and regulates training of Saudi soldiers by Americans.

to improve the economical and political stability in the region. Additionally a "recollected" Saudi Arabia could contrapunt Nasser much better and if it turns out to be necessary even Qasim.<sup>8</sup>

The views on the world's petroleum order started to change at the end of the 1950s. After the second world war fear from nationalization decreased and the need to store crude oil lessened; new problems have arisen such as the question of overproducing and the need for new markets. In addition new oil producing areas were found in Algeria and Libya, which have brought a few thousands kilometers closer the crude oil drillings to Europe, furthermore, oil could reach western markets without using the Suez canal. This came in handy for the Continental Oil Company (Conoco) who was active in Libya at that time, because that company has received concession for that area. On the other hand for the members of the Seven Sisters<sup>9</sup> it meant another rival and even more spare crude oil. And let's not forget that even the Soviet Union had been selling its crude oil to global market at much lower prices than that of the Middle-Eastern countries sold their black gold. Through these the influence of the petroleum producing countries decreased dramatically and of course so did their income.<sup>10</sup>

At the end of the 1950s production was twice the demand. As a result price of Middle-Eastern oil had to be decreased. This was done by the British Petrol in February 1959; a barrel got cheaper by 18%.<sup>11</sup> It was a massive blow for the petroleum producing countries because by previous concession agreements oil companies paid their royalties to the states of the region based on the price of a barrel. In the same year the Eisenhower administration maximized the quantity of foreign oil imports in 9% of total consumption<sup>12</sup> because the drilling of domestic oil companies cost much more than that of the Middle-Eastern ones. Their loss of income increased hence they have put more and more pressure on the President of the United States in Congress, whom, although supported first and foremost oversea operations of the big oil companies, could not deny the wishes of the domestic companies. Although he did not like the idea that he had to limit free trade, and with that also withheld funds that would have been used for economical development in the Middle-Eastern region, he eventually accepted it based on national security interest.<sup>13</sup>

As a result of this the petroleum producing countries called a conference by the spring of 1959 to Cairo. Officials of the Standard Oil of New Jersey<sup>14</sup> feared that this conference would turn out to be a political playground for Abdullah Tariqi<sup>15</sup>, Saudi oil minister, who

<sup>8</sup> FRUS-NE Nr. 51 (p. 187), and FRUS-SA Nr. 325. (p. 739)

<sup>9</sup> Standard Oil of New Jersey (later Exxon), Standard Oil of New York (later Mobil), Standard Oil of California (later Chevron, mother company of ARAMCO), Texas Oil Company, Gulf Oil, British Petrol, and Royal Dutch Shell comprised the Seven Sisters

<sup>10</sup> Daniel Yergin: *The Prize – The Epic Quest for Oil, Money, and Power*. New York, 1992. p. 514-515., Douglas Little: *American Orientalism*. Chapel Hill, 2002. p. 74-75.

<sup>11</sup> Anthony Sampson: *A Hét Nővér*. Budapest, 1978. p. 227.

<sup>12</sup> Nathan J Citron says 10% in his cited book. The originally voluntary import maximalization was made mandatory two years later. Then it was made even more severe during the Kennedy era. All in all, - with little or no changes – it was in effect for 14 years.

<sup>13</sup> Daniel Yergin: Id. 535-540.

<sup>14</sup> Interesting fact that many monographies refer the company as Exxon, however, it only took that name in 1972.

<sup>15</sup> For more information about Tariqi see Daniel Yergin Id. p. 513-514.

has been attacking oil concession agreements for a long time demanding higher revenues. With it comes that the US government was afraid that Cairo would result in a conversation pervaded by Arab nationalism. However, they were wrong about that because of the Arab Cold War they didn't make a unified "front" since the representative of Iraq did not show up, and in addition representatives weren't only from Arab states but also from Venezuela and Iran. What made the question even more interesting is that it was Nasser who asked the petroleum producing countries to keep calm because "Arabs know that their oil has to go to the customer before it has any value". The meeting was not completely pointless because Tariqi and the Venezuelan minister of oil Juan Pablo Pérez Alfonso<sup>16</sup> has made an unofficial agreement, or as literature calls it a "gentlemen's agreement" about mutual cooperation and the defending of oil prices. This agreement contained the idea that every petroleum producing country should establish its own national oil company (not the same as the nationalization of existing ones), every country should take their part in not only the producing but also in the refining of crude oil and respectively the "fifty-fifty agreement" should be modified to 40-60% in favor of the producing countries.<sup>17</sup>

The first "fifty-fifty agreement" was made by Pérez Alfonso in Venezuela back in November 1948. The point of this was that the state get an equal share of the oil revenues and in exchange for this extends the duration of the concession agreement. In addition, in that way the government cooperated directly with the oil companies and also protected them from extremists. In the following years more and more petroleum producing countries used this method, Saudi Arabia applied it in December 1950. Its interesting that ARAMCO compensated it's loss of income by accounting royalties to the king as foreign income-tax in the United States. So even with their increased expenditures they didn't have serious loss of incomes. On the other hand it cost 50 million dollars per year for the United States central treasury. Of course it was tax evasion and the US government was very well aware of that, however, with this the government could help his most important ally in the region without the need to inform the Congress. And pro-Israel politicians as it was mentioned before would not like that. So they overlooked the legal side of the case as it was advantageous for the government, for the ARAMCO and for the king. There was another consequence of the fifty-fifty agreement; as the income of petroleum producing countries depended solely on the price of a barrel, they demanded to fix those prices publicly. However, this was a double edged weapon. On the one hand it meant continuous and fix income for the petroleum producing countries, but on the other hand this kind of tariff did not follow market relations so any kind of change could have a serious consequence on the incomes of petroleum producing countries. Furthermore, big oil companies paid their taxes in the United States based on these fix prices in exchange for tax allowances, however, the companies not necessarily sold it on fixed prices. So these companies did not pay their taxes based on their profit thus raising their income even further. This solution was appropriate for both parties as long as they didn't have to reduce their prices in result of overproduction. It is fairly apparent that the Arab nationalist politics (sharing the profit with

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<sup>16</sup> For more information see Daniel Yergin Id. p. 510-513.

<sup>17</sup> Géza Szurovy: A kőolaj regénye. Budapest, 1993. 299-300.

non-producing countries) of petroleum producing countries started to change; and business-related thinking has come to the fore.<sup>18</sup>

Because of the lowered prices, petroleum producing countries and oil companies came off badly from a certain point of view – at least those who was contracted with one of the Seven Sisters – their income has decreased with more than 130 million dollars. And it is a huge amount of money especially if we consider that the main source of income of these countries' main source of income was the royalties that were paid based on concession agreements. However, the big oil companies had much less loss thanks to the previously reviewed tax trickery. They were more bothered by the tariffs of independent (that means not in league with the cartel) oil companies like the aforementioned Conoco and it's business in Libya.<sup>19</sup>

During this time Tariqi became the main antagonist of the American oil industry by demanding bigger and bigger shares of income for Saudi Arabia and he also suggested that ARAMCO should be "arabized" meaning it should be owned by Saudis. Many American officers and members of ARAMCO criticized Tariqi because – in their opinion – he doesn't know anything about it and he clings to his own theoretical conceptions fanatically. In addition to the crisis of overproducing ARAMCO got a new leadership which increased tension because the "old" leaders of the company were friends with the Saud family while the new ones were unknown to them.

However, Tariqi's aim was not nationalization (as many thought that arabization is the same concept), his aim was to make ARAMCO not just a petroleum producing company but also a company that includes refining and selling, and of course to make sure that Saudi Arabia gets its share from these too. But the leaders of the American oil company wanted to avoid this because that would mean a competition between ARAMCO and it's mother companies (Standard Oil of New Jersey, Mobil, Texaco, Standar Oil of California). They wanted to stop Tariqi by providing him with a seat in the board of directors, thus allowing him to participate in the planning of the company's goals.<sup>20</sup> Based on this, the US government thought that he could return to support private industries instead of state-wide financial supports and can discard financing pro-western monarchies because the petroleum order is no longer threatened by Arab nationalism. So as a result of this good old principles of market and business have finally returned. To ensure this the government even set back the antitrust investigation of ARAMCO on purpose as they didn't want ARAMCO to get weaker in its fight against Tariqi. So the government – despite Tariqi's aggressive politics – thought it was a really positive development. They were right to think that because of the overproducing of crude oil the oil companies were already in better bargaining positions than petroleum producing countries so they didn't have to fear any negative consequences.

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<sup>18</sup> Nathan J Citino: Id. p. 152-153., Daniel Yergin: Id p.. 445-449, and Anthony Sampson: Id. p. 162-167.

<sup>19</sup> Anthony Sampson: Id. p. 225-227.

<sup>20</sup> Ibid. P. 153-154., FRUS-SA 334. (p. 752.) it is apparent from the report of the ambassador of Dhahran that Feisal took arabization out of the question on principle at least in the meaning Americans used it or how Americans interpreted Tariqi's conception (which Washington mistakenly took as a tendency for nationalization)

Especially now when it became obvious that Arab nationalism and Arab unity didn't work in the context of oil.<sup>21</sup>

Many think that Tariqi's primary goal was to "arabize" Saudi oil industry, however this is not by long true. Nothing characterizes this better than the agreement between Saudi Arabia and Venezuela made in Cairo that could be considered as the predecessor of OPEC. The decision made by the Standard Oil of New Jersey in August 8 1960<sup>22</sup> namely decreasing the price of oil per barrel again was another boost.<sup>23</sup> It is known that concession money was paid based on this and that caused a huge loss of income for the Saudi royal family (in addition it made harder for Feisal to push through his reform programs; see about this later). The leaders of the petroleum producing countries were mad. Qasim saw this as an opportunity to marginize Nasser at least regarding oil. Hence he reacted very quickly and summoned a conference in Baghdad for petroleum producing countries (which consisted Venezuela and Iran, not just Arab states). On account of continuous conflicts representatives of the UAR did not show up. It was too late to change anything by the time the oil companies realized they have made a mistake. On the conference in Baghdad between September 10 and September 14 1960 Saudi Arabia, Venezuela, Kuwait, Iraq and Iran created the Organization for Petroleum Exporting Countries.

It is highly interesting but the US government didn't consider OPEC a real threat because as they saw it the participating countries could be turned on each other very easily simply by "offering five cents more per barrel for the oil of one of the countries".<sup>24</sup> In addition the oil companies held to the notion that they should negotiate with each petroleum producing countries separately and they tried to ignore OPEC altogether. They wanted to make them cooperate by promising some of them that they will produce more oil in their country than in other's so some of the petroleum producing countries could earn more money. In exchange for that oil companies wanted more favorable conditions in their concession agreements. OPEC members averted it successfully because they resisted the offerings of the oil companies and furthermore they also successfully prevented another lowering of the price of a barrel of oil. However, they could not put it back to its original high price-level. To limit production petroleum producing countries established a quota system in which they defined how much oil each country could allow oil companies to produce. These quotas were often exceeded and the petroleum producing countries tried to sell the extra oil with better conditions. Moreover they could not agree in a mutual fixing of prices.<sup>25</sup>

Despite all of this the government of the United States was really happy because petroleum policy of the Middle-East was no longer defined by conceptions of the Arab League (namely that the petroleum producing countries should share their oil income with those states that do not have oil) but instead economical interests. In this way, however, Nasser and the UAR have been driven out of the decision process. In addition, petroleum

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<sup>21</sup> FRUS-NE 83. (p. 251), and FRUS-NE 85. (p. 255.)

<sup>22</sup> Szurovy mentions August 6 in his book.

<sup>23</sup> This is not unified in literature. Usually they mention 7-14% decline in price. This could come from the fact that not every one of the Seven Sisters decreased the price simultaneously and not by the same rate. They achieved unified tariff gradually.

<sup>24</sup> FRUS-NE 91. (p. 275.)

<sup>25</sup> Anthony Sampson: Id. 233-235.

producing countries acted on their behalf from then on and invested much less in the development of Middle-Eastern countries that do not have oil. And this, in the long run, has weakened the Arab nationalism.<sup>26</sup>

Meanwhile in Saudi Arabia serious changes have happened. Between March 1958 and 1960 Feisal successfully implemented his reform program. He carried out the recommendations of the IMF and ultimately gained approval from the United States. On the other hand many member of the royal family were displeased with these reforms. To some it was too much to others it was too little. Saud II, who wanted to get his power back, played on this. He joined with a group, called Free Princes in which were many younger members of the royal family and those who wanted constitutional state, House of Representatives and alliance with Nasser.<sup>27</sup> The king even turned to the US ambassador in Jidda, however the US government ordered the ambassador not to offer anything to King Saud because he will use any help to hinder his brother's reforms and overthrow him.<sup>28</sup> As it turned out, this exactly what has happened. Eventually, King Saud acquired more and more supporters primarily merchants and tribal leaders whom Feisal denied to pay. So with their support Saud II managed to overthrow his brother who finally resigned from his governing authority in December 1960. Only then the Free Princes realized that the old-new ruler didn't want any changes especially not constitutionalism.

It is noteworthy that the government of the United States didn't want Saud II to get back in power, however, officers of ARAMCO did. For them the returning of King Saud meant that Tariqi will be out of picture.<sup>29</sup> This did not happen as King Saud rose to power again he selected Tariqi into his own cabinet. Moreover, with the collapse of UAR Nasser again turned his attention to the conservative monarchies. He even accused them of collapsing it. Furthermore, as fast as King Saud got back to power he started to lose his supporters just as fast and this made him reconcile with his brother, Feisal whom he put again into a leading position as early as November 1961. And he brought his men with him. Ultimately the wish of ARAMCO did not come true because the aggressive Tariqi did not stay away from oil politics.<sup>30</sup>

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<sup>26</sup> Nathan J Citino: Id. p. 155-156., Daniel Yergin: Id. p. 519-523., Szurovy Géza: Id p. 300.

<sup>27</sup> This is the same group that condemned Saudi Arabi because of it's pro-western attitude during the Suez Crisis and also – suprising known the latter facts – they had a major part of the overthrowing of Saud II. Moreover they supported Feisal's reform sin the beginning. They started to back out from him when they realized that political reforms will not follow the economical ones, that the form of state will not change and when it was made clear that Feisal had no intention to change oilpolitics.

<sup>28</sup> FRUS-SA 327. (p. 745), and 328. (p. 747.)

<sup>29</sup> Its a curiosity that Szurovy mention sin his book that Tariqi was Saud's man, not Feisal's. And as Feisal later get back in power he immediately remove him from his office as petroleum minister. However more sources indicate that Tariqi was in fact one of Feisal's man and it was him who held to Tariqi.

<sup>30</sup> Nathan J. Citino: Id. p. 157-160. FRUS-SA 345. (p. 769.), and FRUS-SA 346. (p. 771.)

At the end of Eisenhower's administration the petroleum order seemed to be rock solid and even without a serious American effort. Nasser confronted Iraq and then the Soviet Union, so he left alone conservative monarchies which were aligned to the West. Furthermore, the question of petroleum moved from the subject of Arab nationalism to pure economical interests and ultimately that meant that the private oil companies could negotiate with the petroleum producing countries without involving the US government.