Do Foreign Gifts Buy Corporate Political Action? Evidence from the Saudi Crude Discount Program

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From 1991 to 2003, Saudi Arabia maintained a position as the top supplier of foreign crude to U.S. refiners in order to support its political alliance with the United States. Although oil is often thought of as having one world price, Saudi Aramco supported this export strategy by selling the same crude at different prices in different geographic markets. Maintaining the pricing differentials required by its export targets appears to have been both politically strategic and quite expensive: between 1991 and 2003, Saudi Arabia spent approximately 8.5 billion dollars selling discounted crude to the United States. The per-barrel discount relative to the Asian price reached a high of 6.30 dollars, 30 percent of the U.S. crude price in 2001, and was worth 1.9 billion dollars that year alone.

In achieving its export target, Saudi Arabia therefore transferred substantial rents to the U.S. oil industry in the form of discounted crude supplies. In addition to determining the total value of this transfer through its export quotas and pricing policies, Saudi Arabia also controlled how these rents were distributed within the United States; discounted crude was targeted at specific refineries using highly restrictive sales contracts. The allocation of discounted crude may itself have served as a political tool: refiners who receive discounted crude would have had incentives to take political action in support of Saudi Arabia to protect their access to these rents. This policy is an empirically appealing example of Saudi strategic political behavior both because it had a clearly measurable cost and because it was effectively directed at specific recipients. This paper assesses the incidence of these discount rents in the U.S. market and yields the first empirical evidence for the use of oil as a tool of political leverage through transfers to American firms.

There are several main results. First, there was a great deal of heterogeneity in the value of the discount received by different companies and significant geographical dispersion in the destination of Saudi crude. There is also variation even among refineries of similar capacity and in similar locations as well as within a single refinery over time. This variation allows for an estimation of the impact of discount receipts on refiner profits, and I find that most of the discount rents were captured by refinery owners as profits rather than passed through to consumers as lower gasoline prices. The capture of rents appears to have been almost complete, supporting the idea that the discount was purposefully targeted at specific refiners. Receipts of imports from other countries do not appear to have a similar association with excess profits.

Finally, I examine the effect of discount receipts on one particular type of measurable corporate

political action: contributions to congressional campaigns. These results suggest that this gift was related to some amount of pro-Saudi political action on the part of recipients. Discounts were also associated with increases in refiners' overall political contributions as well as reallocations of these contributions. Recipients shifted contributions away from Members of Congress who received donations from pro-Israel interest groups, which may have been consistent with Saudi foreign policy objectives at the time. Politicians who received more contributions from discount recipients (relative to contributions from other refiners) were more likely to vote in favor of Saudi interests in a House vote at the end of the discount period.

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The results have implications in several different areas. First, the study adds to the small literature on the discount program, showing that the price differentials created rents for U.S. refiners. This paper also provides evidence on the incidence of heterogeneous cost changes in the oil refining industry, supporting the idea that certain types of cost changes may be captured as profits rather than passed through into product prices. This paper also adds a quantitative dimension to the literature on the political economy of global energy markets, providing empirical evidence for the use of Saudi oil not only directly as a tool of political leverage, but through transfers to American companies. This analysis contributes to the broader literature on the relationship between business and politics and the determinants of political giving by corporations. In particular, the Saudi crude discount program serves as an example of a non-standard lobbying channel that offers a window into how firm preferences over the amount and allocation of their political giving are affected by their other business relationships. This is the case whether the discount is passed through into contributions, contributions are used to solicit discount rents, or whether recipients' interests are simply more aligned with Saudi interests. This empirical evidence thus provides a window into the use of these channels of influence in forging economic and political ties through the global energy market.