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# Oil and Geopolitics: The Oil Crises of the 1970s and the Cold War

David S. Painter\*

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**Abstract:** *»Öl und Geopolitik. Die Ölkrisen der 1970er Jahre und der Kalte Krieg«.* Examination of the geopolitics of oil in the 1970s provides important insights into the nature and dynamics of the Cold War. Possession of ample domestic oil supplies and the ability to ensure access to foreign oil reserves were significant elements in the power position of the United States in its Cold War competition with the Soviet Union. U.S. oil production peaked in 1970, however, making the United States increasingly dependent on oil imports and ending its ability to provide oil to its allies during supply interruptions. At the same time, economic nationalism and war and revolution in the Middle East led to disruptions in supply and sharp increases in oil prices in 1973–74 and again in 1978–80. In contrast, the Soviet Union overtook the United States as the world's leading oil producer in the 1970s, and the windfall from higher oil prices helped support Soviet military and economic power and involvement in the Third World. The oil crises raised questions about the ability of the United States to ensure access to Middle East oil, heightened concerns about the dangers of Western dependence on Third World resources, and fed fears that the Soviet Union was winning the Cold War. Although the oil crises of 1970s initially harmed the United States and its allies and contributed to the demise of détente, they also set in motion changes that led to the end of the Cold War.

**Keywords:** Oil crisis, Cold War, Nixon, Kissinger, Carter, Brzezinski, 1970s, détente.

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## 1. Introduction<sup>1</sup>

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Although Henry Kissinger wrote in his memoirs that the energy crisis “altered irrevocably the world as it has grown up in the postwar period,” neither his memoirs nor most studies of the 1970s examine the interaction of the decade’s oil crises and the course of the Cold War.<sup>2</sup> Oil is mentioned only twice in the

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<sup>2</sup> Kissinger 1982, 854. Indeed, he deals with the oil crisis, the October War, and Cold War issues in separate chapters.

1,180 pages of Raymond Garthoff's *Détente and Confrontation*, and there is surprisingly little in Odd Arne Westad's *Global Cold War*, despite its focus on the Cold War in the Third World in the 1970s. Recent edited works on Nixon's foreign policy and the "global" 1970s lack essays on the oil crises, as do volumes 2 and 3 of the *Cambridge History of the Cold War*, which overlap the decade.<sup>3</sup> Similarly, most studies of the oil crises of the 1970s do not take the larger geopolitical context into account. Neither Daniel Yergin's magisterial survey, *The Prize*, nor such fine works on the oil crises as Raymond Vernon's classic edited volume, Steven A. Schneider's detailed study, or Fiona Venn's overview place the crises within the context of the Cold War.<sup>4</sup>

Examination of the geopolitics of oil shows the interaction between the strategic and economic benefits of controlling world oil and the oil crises of the 1970s. Although they did not result directly from the confrontation between the United States and the Soviet Union, the oil crises had a significant impact on the Cold War. Coinciding with U.S. withdrawal from Vietnam, the Watergate crisis, a wave of revolutions in the Third World, the Soviet Union's achievement of nuclear parity with the United States, and the decline of U.S. manufacturing as a result of increased competition from Western Europe and Japan, the oil crises reinforced perceptions of a weakened United States, raised questions about its leadership of the Western alliance, heightened concerns about the dangers of Western dependence on Third World resources, and led to fears that the Soviet Union was winning the Cold War.

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## 2. Oil and the American Century

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Possession of ample domestic oil supplies and control over access to foreign oil reserves have been significant, if often overlooked, elements in the power position of the United States.<sup>5</sup> One of the key features of the geopolitics of oil in the twentieth century was that, with two exceptions – the United States and the Soviet Union – none of the great powers possessed significant oil reserves within their borders. The United States was the world's leading oil producer for the first three-quarters of the century. U.S. oil fields accounted for slightly less than two-thirds of world oil production in 1920, slightly more than two-thirds in 1945, and 16.5 percent in 1973.<sup>6</sup> In addition to a thriving domestic oil industry, five of the seven great oil corporations (the so-called Seven Sisters) that

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<sup>3</sup> Garthoff 1994; Westad 2005; Logevall and Preston 2008; Ferguson et al. 2010; Leffler and Westad 2010. Sargent (2013) notes that most studies of the Cold War in the 1970s neglect economic factors such as oil.

<sup>4</sup> Yergin 1991; Vernon 1976; Schneider 1983; Venn 2002.

<sup>5</sup> Painter 2012; Toprani 2012.

<sup>6</sup> DeGolyer and MacNaughton 2005.

dominated the international oil industry from the 1920s to the 1970s were American companies.<sup>7</sup> U.S. oil companies, along with British firms, dominated the oil industries of the two main producing countries in Latin America – Mexico (until 1938) and Venezuela – and had smaller holdings throughout the region. During the 1920s and early 1930s, the U.S. government successfully supported efforts by U.S. oil companies to gain oil concessions in the Middle East. U.S. companies were also involved in regionally significant oil fields in the Netherlands East Indies.<sup>8</sup>

Control of oil played a vital role in establishing and maintaining U.S. preeminence in the international system. Oil-powered platforms emerged during World War I, became central to military power during World War II, and remained important in the postwar era despite the development of nuclear weapons and ballistic missiles. Although nuclear-powered warships (mainly aircraft carriers and submarines) were developed in the 1950s, most of the world's warships still relied on oil, as did aircraft, armor, and mechanized transport, and each new generation of weapons required more oil than its predecessors used. In addition, the U.S. military established a vast archipelago of overseas bases that allowed it to project its power into almost every region of the world. The forces that carried out this strategy were oil-fueled and could also be used to maintain access to overseas oil reserves.<sup>9</sup>

In addition to being essential to military power, oil played an increasingly important role in the economies of the industrial countries. Oil became the fuel of choice in land and sea transport as well as the only fuel for air transport, challenged coal as the main source of energy for industry, and played an important role in heating and electricity generation. Oil-powered machinery became crucial to modern agriculture, and oil and natural gas became important feedstocks for fertilizers and pesticides. Already almost one-fifth of U.S. energy consumption by 1925, oil accounted for around one-third of U.S. energy use by World War II. Outside the United States, oil was reserved mainly for the military and accounted for around 10 percent of energy consumption in Western Europe and Japan before World War II.<sup>10</sup>

Following World War II, U.S. leaders saw economic growth in Western Europe and Japan as vital to the containment of Soviet power and influence. War-time destruction, dislocation, and overuse drastically reduced coal production

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<sup>7</sup> Known as the "Seven Sisters" because of their close ties and multiple joint ventures, they included Standard Oil of New Jersey (Exxon), Socony (Mobil), Standard Oil of California (Chevron), the Texas Company (Texaco), Gulf Oil, the British-owned Anglo-Iranian Oil Company (after 1954 British Petroleum), and the Royal Dutch/Shell group, a 60 percent Dutch and 40 percent British partnership. See Sampson 1975; Penrose 1968.

<sup>8</sup> Painter 1986, 3-10; Randall 2005, 13-109.

<sup>9</sup> McNeill and Painter 2009, 20-4.

<sup>10</sup> McNeill 2000, 297-331; Podobnik 2006; Schneider, 1983, 520-2.

in Western Europe.<sup>11</sup> To fuel economic recovery in this vital region, the United States sought to ensure that it received the energy it needed, in part by providing dollars through the Marshall Plan to enable Western European countries to buy oil from U.S. companies. Economic growth, in turn, was crucial to mitigating the class conflicts that had divided European and Japanese society in the first half of the century. Economic growth and prosperity undercut the appeal of Leftist parties, financed the welfare state, perpetuated the ascendancy of centrist elites, and sustained the cohesion of the Western alliance. In addition, controlling access to oil helped the United States reconcile its aim of German and Japanese economic recovery and integration into a Western alliance with that of preventing German and Japanese revanchism. To maintain access to oil in the Middle East, Latin America, and elsewhere in the Third World the United States and its allies sought to contain Soviet influence and opposed economic nationalism.<sup>12</sup>

Although oil was also an important element in Soviet power, the Soviet Union was unable to convert its control of significant oil supplies into influence in international affairs outside of Eastern Europe. The Russian Empire was a leading oil producer in 1900, but almost two decades of war and revolution decimated its output. Under Soviet control, the oil industry recovered, and by 1941 the Soviet Union was the world's second largest producer, far behind the United States and slightly ahead of Venezuela. Over-production, competing demands for manpower and materials, and wartime damage reduced Soviet output, and the Soviet Union was a net importer of oil and refined products, mostly from Romania and Austria, until the mid-1950s. During the 1950s, the Soviets increased production from the Volga-Urals region, and by 1960 the Soviet Union was once again the second leading oil producer and had resumed large-scale oil exports.<sup>13</sup>

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### 3. The First Oil Shock

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Oil's economic importance increased after World War II as the United States intensified its embrace of patterns of socioeconomic organization premised on high levels of oil use, and Western Europe and Japan made the transition from coal to oil as their main source of energy. Between 1950 and 1972, total world energy consumption increased 179 percent, much faster than population growth, resulting in a doubling of per capita energy consumption. Oil accounted for much of this increase, rising from 29 percent of world energy consumption in 1950 to 46 percent in 1972. By 1972, oil accounted for 45.6 percent of U.S. energy consumption. Western Europe and Japan were even more dependent on oil, nearly all of which was imported, to meet their energy needs. By 1972 oil ac-

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<sup>11</sup> Leffler 2005; Kapstein 1990, 17-46.

<sup>12</sup> Painter 2009; Painter 2010.

<sup>13</sup> Alekperov 2011, 251-89; Painter 2010, 489-90.

counted for 59.6 percent of west European energy consumption and 73 percent of Japanese energy consumption. The Soviet Union moved more slowly, but by 1973, oil supplied around 39 percent of Soviet energy consumption.<sup>14</sup>

The sharp rise in U.S. oil consumption combined with quotas limiting U.S. oil imports put a strain on U.S. oil supplies. U.S. oil reserves peaked in 1968 and oil production in 1970, and U.S. oil imports rose from 19 percent of total demand in 1970 to 35 percent in 1973. The disappearance of spare productive capacity meant that the United States could no longer provide oil to its allies during supply interruptions, ending what had been an important element underpinning U.S. influence in international affairs. At the same time the center of gravity of world oil production shifted from the Western Hemisphere to the Middle East; the region's share of world oil production rose from 7 percent in 1950 to around 42 percent in 1973, as oil companies concentrated their investments there to take advantage of low production costs.<sup>15</sup>

In this environment, oil prices were already rising when the Organization of Arab Petroleum Exporting Countries (OAPEC), ten days after the onset of the October 1973 Arab-Israeli War, decided to cut back oil production in order to force the Europeans and Japan to put pressure on the United States to change its policy on the Arab-Israeli dispute. A few days later, in response to significant U.S. financial and military assistance to Israel, OAPEC imposed an embargo on oil shipments to the United States. OAPEC also placed an embargo on oil shipments to the Netherlands for its military assistance to Israel, and later extended the embargo to Portugal, South Africa, and Rhodesia. The international oil companies complied with the embargo, but undercut it by shifting non-Arab oil to the embargoed countries and distributing the cutbacks so that both embargoed and non-embargoed countries had their oil imports cut by 16-18 percent. In an already tight oil market, the production cutbacks and embargo drove oil prices upwards. The Persian Gulf producers unilaterally raised the price of oil from \$3.01 to \$5.11 a barrel shortly after the war began, and in December, they raised prices again to \$11.65 (in nominal dollars).<sup>16</sup>

The embargo was not an "OPEC Embargo," as it is often called in both scholarly studies and popular accounts. OAPEC, which in 1973 was composed of Saudi Arabia, Kuwait, Libya, Iraq, Bahrain, Qatar, Algeria, the United Arab Emirates, Egypt, and Syria, initiated the embargo and production cuts. Although a member of OAPEC, Iraq went its own way, joining in the embargo, but not the production cuts. Non-Arab OPEC members, including Iran, Venezuela, Nigeria, and Indonesia, did not join the embargo or cut back production

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<sup>14</sup> Darmstadter and Landsberg 1976, 16-22; Schneider 1983, 49-75, 520-22; Goldman 1980, 52-4.

<sup>15</sup> Darmstadter and Landsberg 1976, 31-5; for U.S. production and import statistics, see DeGolyer and MacNaughton (2005). Middle East share of world oil production calculated from figures in BP 2012.

<sup>16</sup> Painter 2013, 173-85; Hellema, Wiebes and Witte 2004.

and exports. They were content to profit from the price increases and even boosted production. Indeed, the shah was a leading proponent of higher prices. Labeling the embargo an OPEC embargo obscures the specific political circumstances that led to it and conflates the embargo with the pressure OPEC had been putting on prices since 1971.<sup>17</sup>

During the embargo Kissinger, who in September had become Secretary of State as well as national security advisor, and Secretary of Defense James Schlesinger made public threats of military intervention. Schlesinger also raised the issue with the British Ambassador and with NATO officials, and both Kissinger and Schlesinger brought up the possibility in many meetings.<sup>18</sup> Kissinger claimed in his memoirs that “these were not empty threats,” and that contingency plans were prepared. Schlesinger later told interviewers that the United States planned to make use of already scheduled military exercises in the Persian Gulf as a cover for intervention in Abu Dhabi, which he believed would intimidate the other producers.<sup>19</sup>

The British government took Schlesinger’s statements seriously and commissioned a study on the impact of the United States using force against Arab oil producers. The study concluded that if the United States intervened before exhausting all possibilities of a peaceful settlement, the consequences for Europe would be “disastrous.” While Schlesinger apparently thought that seizing Abu Dhabi would suffice, the British study concluded that for military intervention to be successful, all the fields in the region, including those in Saudi Arabia, would have to be seized. This would be a huge task that would take some time, increasing the likelihood of sabotage of the oil fields and related infrastructure.<sup>20</sup>

Rather than reflecting actual plans to intervene, the threats were probably intended to intimidate the Saudis and other Gulf producers.<sup>21</sup> The Saudis and Kuwaitis made it clear that, if attacked, they would destroy their oil facilities,

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<sup>17</sup> Lenczowski 1976, 60-7; on OPEC, see Tétreault 1981; Cooper 2011, 143-8.

<sup>18</sup> Foreign Relations of the United States (hereafter FRUS) 1969-76, 36, docs. 229, 244, 247, 251, 253, 255; Discussion between the Defence Secretary and the US Secretary of Defense, 7 November 1973, Cromer to Douglas-Home, 15 November 1973, both in United Kingdom, Foreign and Commonwealth Office, Documents on British Policy Overseas, Series 3, Vol. 4: The Year of Europe: America, Europe and the Energy Crisis, 1972-1974 (ProQuest, 2014); Ministry of Defence to the Prime Minister, “Middle East,” 28 November 1973, PREM 15/1768; “Note by the Assessments Staff, Middle East: Possible Use of Force by the United States,” 12 December 1973, PREM 15/1768, both in United Kingdom National Archives (UKNA).

<sup>19</sup> Kissinger 1982, 880; Cooper 2011, 129-30; Robinson 1988, 100-2. On the exercises, see FRUS 1969-76, 27, docs. 42, 46.

<sup>20</sup> “Note by the Assessments Staff, Middle East: Possible Use of Force by the United States,” 12 Dec. 1973, PREM 15/1768; Hunt to the Prime Minister, “Middle East,” 3 Jan. 1974, PREM 115/2153, both in UKNA. A study by the Congressional Research in summer 1975 came to similar conclusions; Congressional Research Service 1975.

<sup>21</sup> On the communicative aspects of the embargo, see the astute analysis by Graf 2012.

thus denying the West access to their oil for many years, and, U.S. assessments concluded that military action would almost certainly result in destruction of the oil facilities they were trying to control. In addition, most European countries opposed the use of force except as the last resort. Moreover, the Soviets would most likely have opposed U.S. intervention, possibly by providing assistance to allies such as Iraq. Finally, the American public, in the wake of Vietnam, probably would not have supported U.S. military intervention in the absence of a clear threat to U.S. security.<sup>22</sup>

The United States also sought to use the oil crisis as way to reassert its leadership of the Western alliance. A June 1973 NSC paper had pointed out that U.S. leverage in energy matters resulted from its economic and political influence with Saudi Arabia and Iran, the two leading oil exporters; the U.S. technological lead in most fields of energy-related technology; and from the fact that the United States was the only major Western consumer nation with significant domestic oil resources. Similarly, NSC studies in August and early October called for the United States to capitalize on energy-related issues.<sup>23</sup> During the crisis, the State Department Policy Planning Staff pointed out that the United States, as the only major Western country that could not be shut down by an oil embargo, had an opportunity to “revitalize” its alliances. What “revitalize” meant is clear in a NSC memorandum in early December 1973, which noted: “the unique role of the U.S. in the current oil crisis and in the longer term oil situation gives us some leverage with the Europeans. We have the power to make their oil situation better or worse.”<sup>24</sup>

To put pressure on the Arab states, Kissinger urged the main oil consuming nations to coordinate their policies. In a speech in London on 12 December, he called for the creation of an international Energy Action Group (EAG) composed of producers and consumers to explore ways to increase production and use energy more efficiently. Concerned that such an organization would antagonize the producers, the Europeans were reluctant to agree to the U.S. plan. In addition, the Europeans correctly suspected that Kissinger wanted to use the oil crisis as a means of re-asserting U.S. leadership of the Western alliance.<sup>25</sup>

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<sup>22</sup> ‘Saudi Arabia Warns U.S.’ 1973, 1; FRUS 1969-76, 36, doc. 255, note 2, cites a 10 January 1974 CIA review of possible military contingencies which concluded that military intervention to gain control of the oil fields would be counterproductive because it would probably result in “destroying the very objective we seek.” Kissinger and Schlesinger continued to make veiled threats of intervention after the end of the embargo, and there were a number of articles by conservative pundits calling for the United States to occupy Arabian oil fields. See Congressional Research Service 1975; Buheiry 1980. See also Herbestreuth 2012.

<sup>23</sup> FRUS 1969-76, 36, docs. 187, 193, 208.

<sup>24</sup> FRUS 1969-76, 36, docs. 256, 261, 262.

<sup>25</sup> FRUS 1969-76, 36: 762-64, 718-19, 731-35; Kissinger 1982, 896-7; Skeet 1988, 107; Gfeller 2012, 120-2.



Convinced that the Europeans and Japan were weakening the consumers' position by seeking bilateral deals with Middle East, President Nixon on 9 January 1974 invited the major industrial nations to participate in an energy conference in Washington. The public U.S. position was that the conference of consumers was not aimed at OPEC, and Nixon proposed that all OPEC members should meet with the consumer nations 90 days after the consumer conference. The clear purpose of the conference, however, was to develop a consumer group to improve the position of bargaining position of the oil consuming countries.<sup>26</sup>

The main consumer countries met in Washington from 11 to 13 February. Most European nations, including the United Kingdom, desired a more independent role for Europe, but also were reluctant to follow the French in openly opposing U.S. policies. Unable to promote alliance cohesion by providing oil to its allies, the United States resorted to threats and warnings to try to gain cooperation. In his toast at the beginning of the conference, Nixon suggested that failure of Europe and Japan to follow U.S. leadership on energy matters encouraged isolationism in the United States. Similarly, Kissinger warned that failure to solve the energy problem cooperatively "would threaten the world with a vicious cycle of competition, autarky, rivalry, and depression such as led to the collapse of world order in the 1930s."<sup>27</sup>

Most European countries, including the United Kingdom, recognized what the United States was doing. In addition, most viewed the production cutbacks and embargo as the result of U.S. policies. Nevertheless, most also understood the benefits of cooperation with the United States and, with the significant exception of France, went along with U.S. plans to establish a consumer group to balance the power of the producers. The French government later changed course, and acquiesced in the formation of the International Energy Agency within the framework of the Organization for Economic Cooperation and Development in November 1974.<sup>28</sup>

In March, OAPEC decided to end the embargo after the United States helped negotiate ceasefire agreements between Israel and Egypt and Syria. Saudi willingness to end the embargo was probably also influenced by agreements with the United States to strengthen military and economic ties. In addition to providing military equipment, training, and technical assistance, the United States recommitted itself to protecting the Saudi regime against its internal as well as its external enemies.<sup>29</sup> Most Arab states agreed to end the

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<sup>26</sup> FRUS 1969-76, 36: docs. 280, 293, 299, 314.

<sup>27</sup> FRUS 1969-76, 36, doc. 318; Kissinger 1982, 905-25; Kapstein 1990, 171-5; see also Henning Türk's contribution in this HSR Special Issue.

<sup>28</sup> Gfeller 2012, 127-30, 171-5. France did not join the IEA until 1992.

<sup>29</sup> Lenczowski 1976, 67; Telecon, President Nixon/Secretary Kissinger, 11 Mar. 1974, Digital National Security Archive, Kissinger Telephone Conversations, KA 12113. See also Cooper 2011, 157-8; Safran 1985, 173-4; Schneider 1983, 242-3. Israel and Syria signed a ceasefire agreement on 31 May. The U.S.-Saudi agreements were not signed until June.

embargo on 18 March. The same day the Saudis announced that they would immediately increase oil production by one million barrels a day. Libya, however, did not end its embargo until July.

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#### 4. The Economic Impact

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Higher oil prices intensified the economic problems faced by the United States and the other Western industrial countries in the 1970s, especially inflation, which was now accompanied by stagnation and unemployment. The cost of importing large amounts of more expensive oil also harmed the balance of payments of the United States and other importing countries.<sup>30</sup>

Non-oil-producing developing countries were especially hit hard as they had to pay higher prices for products from the developed countries as well as for oil at the same time as demand for their exports dropped due to the global economic downturn. Many of these countries borrowed large sums from Western banks to cover their costs. Flush with petrodollars from the oil exporting countries, the banks were eager to lend and offered low interest rates. Many countries borrowed more than they could afford, a move that contributed to the Third World debt crisis of the 1980s when the United States raised interest rates in late 1979.<sup>31</sup>

In contrast, higher oil prices produced windfall earnings for the Soviet Union. Between 1960 and 1973, Soviet oil production had almost tripled. As production in Volga-Urals region plateaued, rich fields were found in the West Siberian Basin, making Soviet oil reserves the largest in the world outside the Persian Gulf. In the mid-1970s, the Soviet Union overtook the United States as the world's leading oil producer.<sup>32</sup> In addition to exporting oil to Western countries, the Soviets supplied oil to Cuba and Vietnam at subsidized prices, and sent oil as economic assistance to Afghanistan, Ethiopia, Mozambique, Nicaragua, and South Yemen. During the 1970s, the Soviets increased oil exports to hard currency markets. While the percentage of exports that went to the West varied from year to year, Soviet hard-currency earnings from oil exports doubled in 1973 and again in 1974 and continued to increase for the rest of the decade. By 1976, oil exports were responsible for half of the Soviet Union's hard currency earnings.<sup>33</sup>

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<sup>30</sup> Venn 2002, chaps. 4-5.

<sup>31</sup> Venn 2002, chap. 6.

<sup>32</sup> Alekperov 2011, 289-99; Goldman 1980, 33-56. See the contribution by Jeronim Perović and Dunja Krempin in this HSR Special Issue.

<sup>33</sup> Smith 1993, 81; U.S. Central Intelligence Agency, "Soviet Energy Policy Toward Eastern Europe: A Research Paper," June 1980, CIA FOIA Electronic Reading Room.

The Soviets also benefited indirectly. Exports to developing countries of arms, military equipment, and dual-use civilian goods grew after the 1973 Arab-Israeli War as the rise in the revenues of oil exporters increased their purchasing power. Before 1973, Soviet arms transfers were mainly to newly emerging leftist regimes and national liberation movements. After 1973, more than half of Soviet arms deliveries went to Middle Eastern states with access to oil money. Most of these sales were for hard currencies or barter arrangements in which the Soviets received oil that they re-exported for hard currency. Between 1974 and 1984, the Soviets received around \$19 billion in hard currency from arms sales, and earned around \$23 billion on bilateral or soft currency arms sales.<sup>34</sup>

Higher earnings from oil exports allowed the Soviets to continue importing large amounts of grain and food to cover poor harvests and to import Western technology. Some of this technology probably enhanced Soviet military capabilities by being utilized in new weapons platforms and improving existing ones. Higher oil revenues may also have made it possible for the Soviets to increase their involvement in the Third World in the 1970s.

Increased involvement in the Third World brought the Soviets few long-term gains, however, and proved costly both in terms of resources and in the negative impact on détente. Moreover, the cost of developing Siberian oil, including the necessary transportation infrastructure, drained scarce capital from other sectors of the Soviet economy and caused massive environmental damage. Oil earnings also tended to mask the Soviet Union's increasingly severe economic problems, and by giving the illusion of continued viability to a system that was already in serious trouble reduced incentives for undertaking sorely needed structural reforms.<sup>35</sup>

Finally, the oil crises, by providing the producing countries with extra revenues and the confidence to assert their prerogatives led to a massive buy-out of the international oil companies and the establishment of national oil companies. Although the producing countries already owned their oil reserves, as of 1971 the international oil companies still possessed concessions that allowed them to control the production and distribution of the oil.<sup>36</sup> In the late 1960s, OPEC declared that its members should participate in the ownership and control of their respective oil industries, and it called for a gradual and compensated takeover of the oil facilities in their countries. In 1970, national oil companies owned less than 10 percent of their oil industries, but by the end of the decade,

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<sup>34</sup> Smith 1993, 88-96. The total sales figures were higher, but many of the countries did not pay their bills, resulting in a lower net gain.

<sup>35</sup> Gustafson 1989; Allen 2001; see also the contribution in this HSR Special Issue by Perović and Krempin.

<sup>36</sup> Although Iran technically gained full control of its oil industry in 1951, the oil settlement following the 1953 coup effectively returned control to the international oil companies; see Painter 1986, 197.

the figure was 68 percent. Ownership of all aspects of their oil industries gave producing countries greater control over such factors as the pace of development of their reserves, the rate of production, and the destination of exports.<sup>37</sup>

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## 5. From the Nixon Doctrine to the Carter Doctrine

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The first oil shock highlighted the West's dependence on Middle East oil. Efforts to build up Iran to take over Great Britain's role as "guardian of the Gulf" also demonstrated the interaction of the Cold War with concerns about regional instability and Western access to Middle East oil. In addition, conservative critics of détente sought to frame the October War 1973 Arab-Israeli War as an attempt by the Soviets to expand their influence in the Middle East, clearly connecting regional instability and oil with the Cold War.<sup>38</sup>

In mid-1969, the Nixon administration announced that the United States would in the future refrain from sending U.S. troops to help countries facing internal subversion but rather would provide them with "assistance in helping them solve their own problems." Initially intended to reassure its Asian allies that the United States would not abandon them while convincing the American public and European allies that the United States would avoid future Vietnams, Nixon and his national security advisor Henry Kissinger gradually expanded the president's "informal and ambiguous" remarks into a more comprehensive statement of policy that became known as the Nixon Doctrine.<sup>39</sup>

Despite its origins in Nixon's Vietnam strategy, the Nixon Doctrine had a profound impact on U.S. policy in the Middle East. In early 1968, the British informed the United States of their decision to withdraw their remaining military forces from the Persian Gulf by the end of 1971. Embroiled in an unpopular war in Vietnam, the United States turned to Iran to take over as guardian of the gulf. The shah was eager to accept, hoping to restore the power and prestige of ancient Persia. Ignoring warnings from the U.S. military mission in Iran the Nixon administration in mid-1972 decided to give the shah a "blank check" to buy any U.S. weapons system short of nuclear weapons. For the other pillar of its policy, the United States looked to Saudi Arabia, which eventually took on the former U.S. role of maintaining spare production capacity that could be used supply oil in an emergency and help moderate prices.<sup>40</sup>

The regional surrogate strategy was just underway when the 1973-74 OAPEC embargo and production cutbacks led to a quadrupling of oil prices.

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<sup>37</sup> Levy 1982; Rodman 1988, chap. 8.

<sup>38</sup> Lebow and Stein 1994, 149-288; Painter 1999, 77-80.

<sup>39</sup> Nixon 1971, 548-54; Kissinger 1979, 222-5; Nixon 1971a, 9.

<sup>40</sup> FRUS 1969-76, 24, docs. 2, 82, 83, 86, 89, 91, 93, 133, 135, 140, 146; FRUS 1969-76, E-4: docs, 70, 75, 91, 122, 201, 204, 205, 210, 212, and 214; Alvandi 2012; Macris 2012.

While high oil prices caused economic problems for oil importing countries, there were political benefits. Higher prices allowed Iran to increase its military spending and replace Great Britain as the “guardian of the gulf.” Increased revenues also allowed Saudi Arabia to continue its financial support to Egypt to help Sadat reduce his ties with the Soviet Union and reorient Egypt’s internal politics away from Nasserism and Arab socialism.<sup>41</sup>

Between 1970 and 1978, the United States sold Iran over \$20 billion worth of military equipment and training.<sup>42</sup> The massive influx of oil money resulted in extravagant military spending, inflation, massive rural-urban migration, and increases in already sharp inequalities in wealth and income. The weapons systems the shah bought also brought thousands of Western technicians and military advisers into Iran, further inflaming conservative fears of corrosive Western influence and swelling the ranks of the shah’s opponents. By 1977, Iran’s expenditures were outrunning its revenues, and rapid, but uneven, economic growth and wrenching social change increased discontent with the shah’s regime.<sup>43</sup>

Shortly after President Jimmy Carter visited Iran in December 1977 and praised the shah for making Iran “an island of stability in one of the more troubled areas of the world,” widespread demonstrations against the regime broke out.<sup>44</sup> The unrest escalated during the year, but Carter and his top officials, preoccupied with other important issues including the SALT II treaty, negotiations with China, the Camp David negotiations, and the onset of revolution in Nicaragua, paid little attention until fall 1978.<sup>45</sup>

Concerns about Western vulnerabilities in the Middle East had existed since the onset of the Carter administration. In its first comprehensive assessment of the U.S.-Soviet strategic balance, administration analysts had identified the Persian Gulf as a vital and vulnerable region and had singled out Iran as a potential trouble spot. In addition, Carter’s hawkish national security adviser Zbigniew Brzezinski was concerned that Soviet and Cuban involvement in the Horn of Africa, astride the maritime routes to and from the Persian Gulf, could threaten Western access to the region’s oil.<sup>46</sup>

With these concerns in mind, Brzezinski lobbied for military intervention in Iran, either by the shah’s forces or by the United States. In early December

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<sup>41</sup> Schneider 1983, 165; Schurmann 1987, 284-92; Chamberlin 2008, 458-66.

<sup>42</sup> Bill 1988, 200-4.

<sup>43</sup> On the relationship between uneven economic growth and the emergence of radical opposition to the shah, see Gasiorowski 1991, 142-51, 187-222; and Azimi 2008, 244-7, 297-303.

<sup>44</sup> For Carter’s remarks, see Hunt 1996, 400.

<sup>45</sup> Brzezinski 1983, 358; Vance 1983, 326; Carter 1982, 438-45. The U.S. Ambassador to Iran, William H. Sullivan, chronicles the course of the revolution in *Mission to Iran* (Sullivan 1981). Bill 1988, chap. 7, provides a brief, perceptive account of the U.S. response to the Iranian revolution.

<sup>46</sup> Brzezinski 1983, 177-81, 203-4; Njølstad 2004, 26-33, 51, note 19; Odom 2005, 57-9; Jones 2012, 111-5.

1978, he warned Carter that the United States was confronting the beginning of a major crisis, similar to what Europe experienced in the late 1940s, in an “arc of crisis” stretching from Bangladesh to Aden. Brzezinski was especially concerned about Iran. At the end of December he warned: “the disintegration of Iran, with Iran repeating the experience of Afghanistan would be the most massive American defeat since the beginning of the Cold War, overshadowing in its *real consequences* the setback in Vietnam.”<sup>47</sup> Unable to convince the shah to crush the revolt with military force or to organize a military coup to save his regime, the United States gave up on the shah, who fled Iran on 16 January 1979.<sup>48</sup> Despite hopes that the military would rally behind the caretaker government left by the shah, the military and the government soon collapsed, and power passed to a coalition of opposition forces including supporters of the Ayatollah Khomeini who returned to Iran from exile in February.<sup>49</sup>

The Iranian Revolution disrupted oil supplies and markets. Iranian exports briefly stopped in November 1978 and again in early 1979, before resuming later in that year at a reduced level. Although increases in production in other countries, in particular Saudi Arabia, partly offset the drop in Iranian exports, fear of spreading turmoil, the disruption of marketing channels, and a build-up of inventories due to fear of further problems resulted in 10 percent drop in the amount of oil available in international markets. Oil prices doubled from a posted price of \$14.08 a barrel in 1978 to \$31.61 in 1979, and reached \$36.83 (in nominal dollars) in 1980 as the Saudis began to cut back their production.<sup>50</sup>

The fall of the shah convinced U.S. policymakers that the previous policy of reliance on regional surrogates to guard Western interests in the Middle East was no longer viable.<sup>51</sup> Reports about an impending oil shortage in the Soviet Union further fed fears of Soviet designs on the Persian Gulf. In 1977, three CIA studies had predicted that Soviet oil production would peak in 1980 and decline sharply thereafter, forcing the Soviet Union and its East European allies to look outside the Soviet bloc to meet their oil needs. After being mentioned in

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<sup>47</sup> Brzezinski to the President, Weekly Report #81, 2 Dec. 1978, Brzezinski Collection, Subject File, Weekly Reports, 71-81; Brzezinski to the President, Weekly Report #83, 28 Dec. 1978, Brzezinski Collection, Subject File, Weekly Reports, 82-90, both in Jimmy Carter Library; for context, see Leffler 1983.

<sup>48</sup> Brzezinski to the President, Weekly Report #84, 12 Jan. 1979, Brzezinski Collection, Subject File, Weekly Reports 82-90, Carter Library; Special Coordinating Committee (SCC) Meeting, 11 February 1979, NLC-25-37-9-2-3, Carter Library; Carter 2010, 257, 261, 268; Sullivan 1981, 214-47; Huyser 1986; Afkhami 2009, 498-510.

<sup>49</sup> Brzezinski to the Secretary of State and the Secretary of Defense, 19 Jan. 1979, Brzezinski Collection, Subject File, Alpha Channel (Misc.) 4/78-4/79, Carter Library; Carter 2010, 272, 273, 288; Afkhami 2009, 511-21.

<sup>50</sup> Yergin 1991, 684-91; Hakes 2008, 55-8.

<sup>51</sup> Brzezinski 1983, 446; State Department/CIA study, “Regional Implications of Events in Iran,” 20 Feb. 1979, NLC-24-102-3-3-6, Carter Library; ‘Arabian Anxieties’ 1979, 2; Bronson 2006, 140-51.

connection with President Jimmy Carter's energy plan, some of the studies were made public.<sup>52</sup> Although independent experts raised doubts about these predictions, and the CIA backed away from the reports, the belief that the Soviets wanted to gain control of Persian Gulf oil persisted. So far, scholars have found no convincing evidence that Soviet involvement in the so-called arc of crisis was driven by a desire to gain access to the oil resources of the Persian Gulf or to deny the West access to these resources.<sup>53</sup>

After looking at the impact of the fall of the shah, Soviet activities in Afghanistan, the Horn of Africa, and Yemen, and increasing U.S. dependence on oil imports, Carter's national security advisers concluded "the United States has vital interests in the Middle East area and the Soviet Union, by comparison, does not." To guard those interests, the United States should improve its "military surge capabilities" and establish a permanent military presence in the region. The U.S. objective should not be an equal military balance with the Soviet forces in the region, but rather "a perceptible military preponderance."<sup>54</sup>

At the Vienna Summit in June 1979, Carter told Soviet leader Leonid Brezhnev that there were some areas of the world, such as the Persian Gulf and the Arabian Peninsula, where the United States and its allies had "absolutely vital interests." In such areas it was essential that the Soviets exercise restraint in order not to threaten U.S. national security interests. Brezhnev told Carter not to blame the Soviet Union for the changes taking place in the world, and he denied that the Soviet Union was trying to gain control of countries in "the so-called arc of crisis." The whole idea, he countered, was a "complete fairy tale." Brezhnev also complained about the casual way in which the United States claimed that remote corners of the world were vital interests.<sup>55</sup>

Shortly after the Vienna Summit, the United States began assisting forces fighting the communist-led government of Afghanistan, which had seized power in an April 1978 coup. Saudi Arabia, Egypt, and Pakistan were already aiding the anti-government forces in Afghanistan. Brzezinski later boasted that this aid was

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<sup>52</sup> Brzezinski to the President, NSC Weekly Report #31, 7 Oct. 1977; Military Assistant to Brzezinski, Weekly Report, 22 Sept. 1977; US Central Intelligence Agency, *The International Energy Situation: Outlook to 1985*, ER 77-10240 U, April 1977; CIA, *Prospects for Soviet Oil Production*, ER 77-10270, April 1977; CIA, *Prospects for Soviet Oil Production: A Supplemental Analysis*, July 1977; Bartlett and Steele 2003.

<sup>53</sup> 'CIA Chided on Soviet Oil Predictions' 1978, A1, 7; Stern 2013.

<sup>54</sup> Policy Review Committee Meetings 21-22 June 1979, 23 June 1979, NLC-31-11-12-4-8; Brzezinski to the President, Weekly Report #101, 22 June 1979, Brzezinski Collection, Subject File, Weekly Reports 91-101; Brown, Memorandum for the President, 11 July 1979, Brzezinski Collection, Subject File [Meetings-Vance/Brown/Brzezinski 8/79-9/79]; all in Carter Library; Brzezinski 1983, 447.

<sup>55</sup> Carter 1982, 254-5; Carter 2010, 329; Memorandum of Conversation, Fourth Plenary Meeting, 17 June 1979, Declassified Documents Reference System (DDRS) CK3100073527; Leffler 2007, 315-8.

intended to provoke the Soviets into sending troops into Afghanistan, revealing their “true” nature and getting them bogged down in a Vietnam-like quagmire.<sup>56</sup>

The storming of the U.S. Embassy in Tehran by radical supporters of the Ayatollah Khomeini in November 1979 and the taking of 52 U.S. hostages intensified U.S. concerns about Iran. The CIA feared that instability in Iran could give way to a leftist regime more favorable to the Soviets. Even if Ayatollah Khomeini was able to restore order, which the CIA assessed as unlikely, “it may only be the precursor to more determined efforts to export the revolution.”<sup>57</sup>

Shi’a protests in the Eastern Province of Saudi Arabia and the takeover of the Grand Mosque in Mecca by militants in November 1979s further stoked fears of spreading unrest. The Shi’a protests were only in part inspired by Iran, and initial fears that Iran was behind the seizure of the Grand Mosque proved to be unfounded. Nevertheless, coming so soon after the Iranian Revolution, these events heightened concerns about regional instability and access to oil.<sup>58</sup>

The United States was considering military action against Iran when Soviet intervention in Afghanistan on Christmas Day 1979 seemed to confirm fears that the Soviets would take advantage of regional turmoil to advance their interests. Brzezinski wrote Carter the next day that the United States was facing a crisis, with both Iran and Afghanistan in turmoil, and Pakistan “both unstable internally and extremely apprehensive externally.” If the Soviets succeeded in Afghanistan and Pakistan acquiesced, “the age-long dream of Moscow to have direct access to the Indian Ocean will have been fulfilled.”<sup>59</sup>

The CIA, on the other hand, did not believe that Soviet intervention in Afghanistan constituted the “beginning of a premeditated strategic offensive.” Rather the CIA assessed the intervention as a reluctant response to what Soviet leaders feared was the “imminent and otherwise irreversible deterioration” of their position in a neighboring country. While noting that the Soviets would probably try to take advantage of the situation in Iran, the CIA did not believe that the Soviet move in Afghanistan presaged action against Iran. Subsequent research supports the CIA analysis.<sup>60</sup>

Soviet intervention in Afghanistan led the United States to shelve plans to take military action against Iran. According to Brzezinski, actions against Iran had to be weighed against their impact on the larger goal of containing Soviet

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<sup>56</sup> Gates 1996, 146-8; Westad 2005, 328; for the text of Brzezinski’s remarks, which were published in *Le Nouvel Observateur* [Paris] 15-21 Jan. 1998, see Gibbs 2000, 241-3.

<sup>57</sup> CIA, “New Realities in the Middle East,” NI IIM 79-10026, December 1979, NLC-6-51-7-7-5, Carter Library.

<sup>58</sup> Jones 2006; Trofimov 2007.

<sup>59</sup> Brzezinski to the President, 26 Dec. 1979, Brzezinski Collection, Geographic File, Southwest Asia/Persian Gulf-Afghanistan [12/26/79-1/4/80], Carter Library.

<sup>60</sup> “Soviet Union and Southwest Asia,” attached to Turner, Memorandum for the President, 15 Jan. 1980, NLC-133-42-2-2-3, Carter Library; Westad 2005, 316-26; Leffler 2007, 303-11, 329-34.



ambitions. In particular, Brzezinski believed that in order to mobilize Islamic opposition to the Soviets, the United States had to avoid a military confrontation with Iran.<sup>61</sup>

Following NSC discussions of measures the United States could take to respond to Soviet actions, Brzezinski recommended that the United States alter its policy on selling arms to China and fashion deeper security arrangements for the Middle East. Otherwise, Soviet influence could spread rapidly from Afghanistan to Pakistan and Iran, which “would place in direct jeopardy our most vital interests in the Middle East.” Brzezinski repeated these themes in an interview published in the *Wall Street Journal*, stressing that the fates of Western Europe, East Asia, and the United States were linked to the Persian Gulf and its oil.<sup>62</sup>

Carter agreed with his national security adviser, and in his State of the Union address on January 23, 1980, warned that the Soviet invasion of Afghanistan “could pose the most serious threat to the peace since the Second World War.” The Persian Gulf contained more than two-thirds of the world’s exportable oil, and Soviet control of Afghanistan would put Soviet military forces within 300 miles of the Indian Ocean and close to the Straits of Hormuz, through which most of the region’s oil flowed. The Soviets, he concluded, were “attempting to consolidate a strategic position, therefore, that poses a grave threat to the free movement of Middle East oil.” To meet this threat the President announced what became known as the Carter Doctrine: “An attempt by any outside power to gain control of the Persian Gulf region will be regarded as an assault on the vital interests of the United States of America, and such an assault will be repelled by any means necessary, including military force.”<sup>63</sup>

Carter also stated that the United States would improve its capability to deploy military forces rapidly in the region. In March, the Defense Department established a Rapid Deployment Joint Task Force at MacDill Air Force Base in Florida. The United States also began negotiations to secure access to facilities in the region and made preparations to preposition equipment on land and on special ships.<sup>64</sup>

In one of its last official acts, the Carter administration in January 1981 elevated the status of the Persian Gulf in terms of U.S. strategic priorities. According to the NSC, Western Europe, especially after NATO’s decision in December 1979 to modernize its theater nuclear forces, was more secure, and the development of a strategic partnership with the PRC had improved the strategic balance in East Asia. In contrast, U.S. ability to defend Western interests in the Persian Gulf

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<sup>61</sup> Brzezinski 1983, 482-5; Carter 2010, 368, 371, 372, 380.

<sup>62</sup> Brzezinski 1983, 431; National Security Council Meeting, 2 Jan. 1980, in Westad 1997, 332-51; Brzezinski to the President, 3 Jan. 1980, Brzezinski Collection, Geographic File, Southwest Asia/Persian Gulf-Afghanistan [12/26/79-1/4/80], Carter Library; ‘An Interview with Zbigniew Brzezinski’ 1980, 20.

<sup>63</sup> Carter 1980-81, 194-200, quotation on 197.

<sup>64</sup> Brzezinski 1983, 446, 456; Palmer 199, 106-11; Jones 2012, 122-8.

region needed to be improved, and this required a greater allocation of U.S. resources to the defense of the region. In a pair of Presidential Directives signed on 15 January 1981, the Carter administration assigned the Persian Gulf region top priority for resources in the Five Year Defense Plan and second place, after Western Europe, in terms of planning for wartime operations.<sup>65</sup>

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## 6. Aftermath of the Oil Crises

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At first glance, it appears that the oil crises of the 1970s hurt the United States and its allies and strengthened the Soviet Union. In longer perspective, however, a different story emerges. Over time, higher oil prices led to increases in oil supply, decreases in demand, and a drastic drop in oil prices. These changes in the world oil economy played an important role in the end of the Cold War.

After the first oil shock in 1973-74, the OECD nations launched a coordinated campaign to protect themselves from future disruptions in supply. The campaign focused on reducing oil consumption through greater efficiency and conservation, replacing oil with other energy sources, particularly in electricity generation, and reducing oil imports from OPEC producers, especially those in the Middle East, by increasing oil production elsewhere. Although these efforts lagged due to declining real prices for oil between 1974 and 1979, the second oil shock revived them. Between 1979 and 1985, oil consumption in the non-communist world fell from 51.6 to 46.3 million bpd as a result of higher prices and recessions in 1973-1975 and 1979-1982. In addition, coal and natural gas replaced fuel oil in many industrial and utility uses, and total use of nuclear power by the advanced industrial countries more than doubled. Over the same period, non-OPEC oil production, mainly in Great Britain, Norway, Mexico, and the United States, increased from 17.7 to 22.6 million barrels per day, as higher prices and advances in technology, especially in offshore production, spurred increased output. The result was a 10.2 million bpd drop in demand for OPEC oil.<sup>66</sup>

Despite the disruption caused by the Iran-Iraq War, these changes in supply and demand began to affect oil prices. After initially trying to support prices by reducing output, the Saudi leadership decided in the summer of 1985 to regain their position in world markets by increasing production. Rather than selling oil at a fixed price, the price would be based on what refined products sold for in the

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<sup>65</sup> Presidential Directive PD/NSC-62, "Modifications in US National Security Strategy," 15 Jan. 1981; Presidential Directive PD/NSC-63, "Persian Gulf Security Framework," 15 Jan. 1981; both available on the Federation of American Scientists web site; Njølstad 2004, 42-8.

<sup>66</sup> Dowling and Hilton 1992, 75, 77-8; Hakes 2008, 41-70. On offshore technology, see Priest 2014.

marketplace minus a fixed margin for the refiner. The new system put a premium on volume rather than price and led to a collapse of world oil prices in 1986.<sup>67</sup>

The price collapse decimated Soviet hard currency earnings and undermined the reform plans of the new Soviet government of Mikhail Gorbachev, who had come to power in March 1985. Gorbachev hoped to use oil earnings to finance a modernization of Soviet industry and to improve living standards, thus easing the transition from a command economy to a market economy and a more democratic society. Instead, declining oil prices played an important role in the collapse of the Soviet economy, the end of the Cold War, and the disintegration of the Soviet Union.<sup>68</sup>

Some conservative writers claim that the Reagan administration engineered the oil price collapse to bring about the fall of communism and win the Cold War. Even if this is what happened – and it is far from clear on the basis of the available record – they miss a key point: Gorbachev and the generation of Soviet leaders that emerged in the 1980s had already concluded that continued conflict with the West threatened their goal of overcoming the disastrous legacy of Stalinism, reforming their economy, democratizing their politics, and revitalizing their society. Thus rather than killing communism, which was already terminally ill, the collapse of oil prices precluded the possibility of social democracy in the Soviet Union.<sup>69</sup>

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## 7. Conclusion

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Oil was an important source of U.S. power and influence in the twentieth century. During the Cold War, U.S. policy focused on containing the Soviet Union, ending destructive political, economic, and military competition among the core capitalist states, mitigating class conflict within the capitalist core by promoting economic growth, and retaining access to the raw materials, markets, and labor of the periphery in an era of decolonization and national liberation. Control of oil was central to these efforts.<sup>70</sup>

The oil crises of the 1970s threatened U.S. control of world oil and thus U.S. dominance in the international system. U.S. oil production peaked in 1970s, making the United States increasingly dependent on oil imports and ending its ability to provide oil to its allies during supply interruptions, a capacity that had been an important source of U.S. influence. At the same time, economic nationalism, war and revolution in the Middle East, and the changing dynamics of the Cold War raised questions about the ability of the United States to maintain

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<sup>67</sup> Yergin 1991, 745–51.

<sup>68</sup> Painter, "Oil and the End of the Cold War," unpublished paper, 2008.

<sup>69</sup> *Ibid.*; Painter and Blanton 2002.

<sup>70</sup> Bright and Geyer 1987, 82, 84; Bromley 1991, 78.

access to Middle East oil. Oil prices rose steeply in 1973-74 and again in 1978-80, causing serious economic problems for the United States and its allies. In addition to the economic impact, the realization that access to oil at low prices was threatened undermined confidence in Western dominance. To make matters worse, the Soviet Union overtook the United States as the leading oil producer, and the windfall from higher prices allowed the Soviets to import large amounts of Western grain and machinery, giving the illusion of continued viability to a system that was already in serious trouble. Higher oil revenues also indirectly helped finance Soviet military power and involvement in the Third World. Although the oil crises of 1970s undermined U.S. control of world oil, they also set in motion changes that led to a reassertion of U.S. power and the end of the Cold War.

The oil crises of the 1970s were so intimately intertwined with the dynamics of the Cold War that it is impossible understand the history of the Cold War without taking oil into account. The history of oil does tell not the whole story, but accounts that neglect its role are incomplete, and therefore misleading.

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