

# Oil in the US Foreign Policy II – Cold War Era

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# After the WWII

- Expanding car industry and post-war reconstruction – key determinants for increasing demand for oil
- Oil as a determining factor for the economy – still not a key factor in foreign policy
  - clash of approaches among state representatives: PAW – Harold Ickes vs. Dept. of State (liberal)
- Middle East seen as the new center of gravity
  - “cheap vs. secure” debate
  - preserving domestic sources for the event. of conflict (importing cheap oil) vs. extracting domestic oil (not relying on potentially unstable foreign suppliers)
  - gradual shift in the perception of imports – support for foreign imports, change in later years

# Roosevelt a Abdulaziz Ibn-Saud Aboard the USS Quincy

- Establishment of the “special relationship” between the US and Saudi Arabia 14.2.1945:  
access of US OCs in Exchange for military and material assistance



# After the WWII – Divide and Conquer?

- Oil within the top 3 energy sources in the US
- US & UK disputes about the spheres of influence in the Middle East
- Concerns about the growing influence of the USSR
- Concerns about potential overproduction and market instability
- Negotiations with UK – efforts to renegotiate rather restrictive RLA and cooperation – cartelization?
  - questionable compatibility with the Sherman Anti-trust act
  - negotiations about so called Anglo-American Petroleum Agreement since 1943
- Clear shift in positions compared to pre-war years– strengthening US OCs at the expense of Brits
- US share in the total world oil production was steadily declining (from 2/3 pre-WWII to 1/3 by 1973)
  - rise of new producers

# Negotiations with UK

- Anglo-American Petroleum Agreement agreed in 1944, renegotiated 1945, finally withdrawn in 1952
  - the US Senate refused the bill
  - Truman refused to support the bill
  - the public and policy sentiment fundamentally changed (30s vs 40s & 50s)
  - public and political resistance towards state-guided policy
  - “OCs can make it on their own!”
  - concerns about compatibility with the Sherman AT Act
- Unsuccessful efforts to state/guided activities in the Middle E.
- PRC and Anglo – American PA failed
- paradigm shift - indirect support for US OCs

## Demise of the RLA & the state-guided policy after the WWII

- SOCONY & SONJ pressured to repeal the restrictive conditions of the RLA in order to be able to join SOCAL & TEXACO at ARAMCO
  - SOCONY & SONJ barred by the original RLA
- FRA and Gulbenkian protested but eventually agreed (1948)
- IPC (TPC) area of activities redrawn (excl. Saudi Arabia, Yemen, Bahrain, Egypt, Israel, and the western-half of Jordan)
  - eventually, the center of gravity of oil production shifted out of this area

# After the WWII

- Korean War – Petroleum Administration for Defense
- successor of similar gov. bodies Fuel Committee (WWI), Petroleum Administration for War (WWII)
- Change in the perception of oil imports
  - 1930s & 1940s – insufficient imports are dangerous
  - 1950s – 1960s - excessive imports are dangerous
- Introduction of import quotas 1959
  - higher utilization of domestic resources, combined with increasing demand
  - did not work – consumption outpaced saving measures
  - accelerated incoming of the expected 'peak oil'

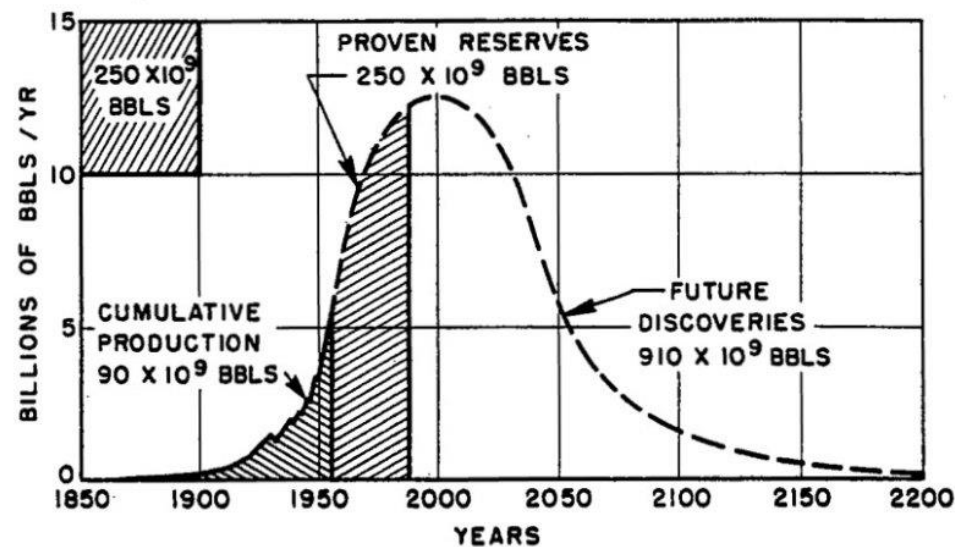
# After the WWII

- Sufficient oil supplies as one of the determining factors of the post-war development
- US aimed to secure sufficient oil supplies for Europe
  - economic development as a precaution against revisionist tendencies and destabilization (part of the containment, Marshall Plan)
- SSSR – oil production vastly damaged during the war
  - gradually increasing production in following years
  - 2nd biggest producer by 1960s
- Developed economies converted to oil
  - departure from coal as the primary energy source
- Conversion accelerated by post-war reconstruction
  - oil eventually assumed  $\frac{1}{2}$  of the worldwide total energy consumption



# Peak Oil?

- “The Stone Age came to an end not for a lack of stone, and the oil age will end, but not for a lack of oil.”
- Zaki Yamani (former Saudi minister of oil industry)
- 1956 - Marion King Hubbert: US production will peak in early 1970s



# Peak Oil?

- 2005-2008 – some claimed this period to be the ‘real’ peak oil (again)
- a) Absolute peak?
  - i.e. all resources have been discovered and developed with maximum efficiency, using the most advanced technologies available; technological development reached its absolute peak (highly improbable if not outright impossible)
- b) ‘Plateau’? – a peak that lasts for a long period of time, production on more or less stable level
- c) Temporary peaks? – peak production determined by new resources, instable price, etc.
- d) Peak of conventional resources?
  - resources vs. (proven) reserves – how much oil is left?
  - decline of (super and mega)giant conventional fields, decline of new finds (Ghawar – the biggest oilfield has been producing since early 1950s, now in clear decline)
  - the end of oil?
  - ...or rather the end of cheap oil?

# Seven Sisters

- **Anglo-Persian Oil Company** (UK): later Anglo-Iranian Oil Company and then British Petroleum, BP since 2000
- **Gulf Oil** (US): later merged with SoCal and became Chevron
- **Royal Dutch/Shell** (NED/UK)
- **Standard Oil of California** (US): acquired Gulf and became Chevron
- **Standard Oil of New Jersey** (US): became Exxon, acquired Mobil and became ExxonMobil
- **Standard Oil Co. of New York** (US): became Mobil and was later acquired by Exxon to become ExxonMobil
- **Texaco** (United States): later acquired by Chevron.

# Iran – Unsuccessful ‘Stabilization’

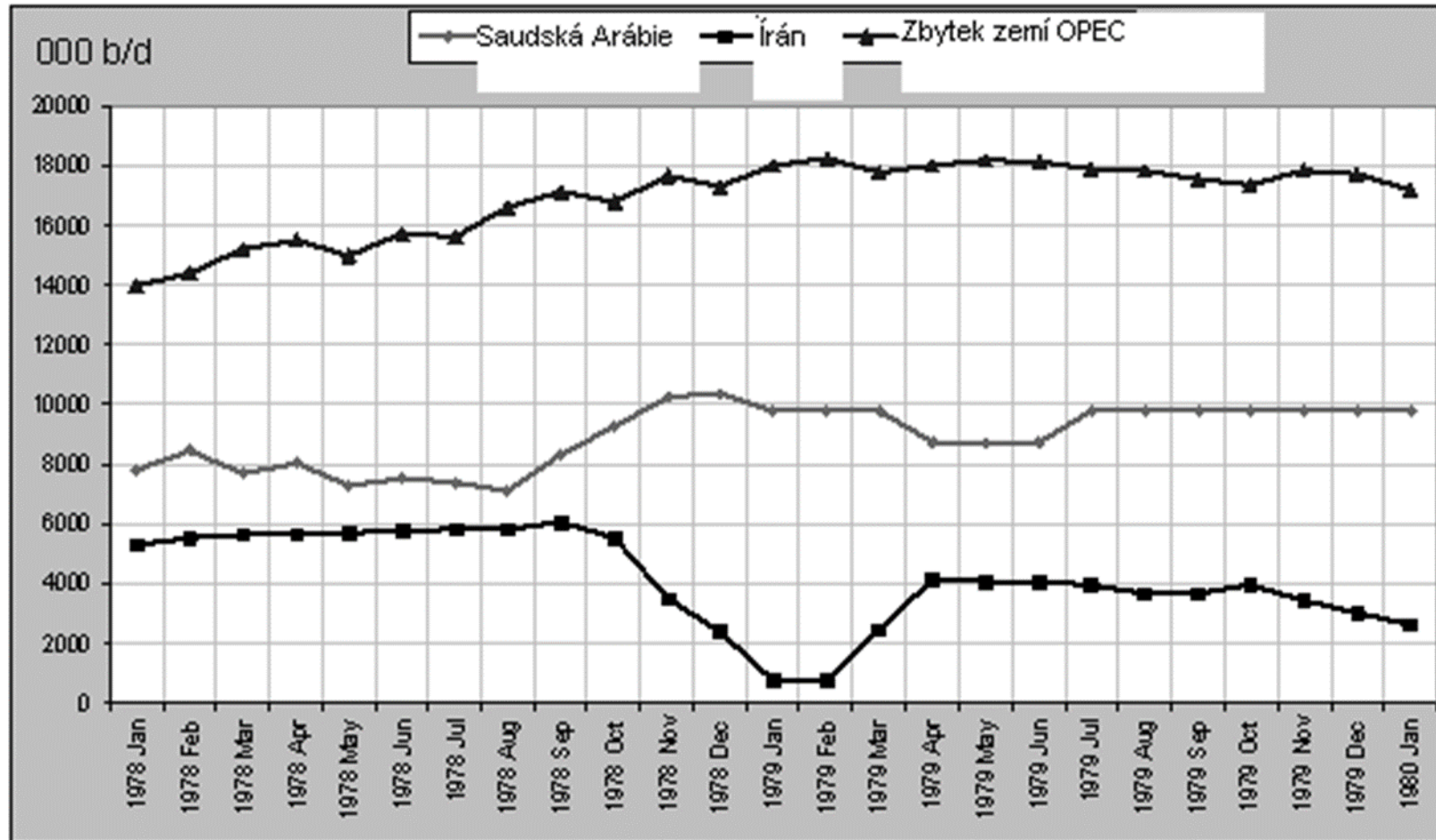
- Iranian people dissatisfied with the quality of life
  - public unrest anti-imperialism – nationalist Mohamed Mossadegh as the new PM
- 1951 –Anglo – Iranian Oil Co. nationalized
- US concerned about the rise of nationalism and penetration of USSR to the region (the heyday of the containment, Tudeh Party)
- 1953 - Coup supported by western secret services – reinstallation of Pahlavi
- Iranian oil industry nationalized, although US OCs operated and to great extent influenced the whole industry – replaced British influence in the area
- US supported shah´s regime by supplying it with political support, supplies, training of counterinsurgency forces, etc.
  - seen as a stabilization for the region and shield against communism
  - public resistance against the regime was increasing

# Iran – Unsuccessful ‘Stabilization’

- The revolution of 1979 – the Shah was replaced by anti-American Ruhollah Khomeini
- Expulsion of foreign experts, continual decrease of oil production
- Supplies to the US embargoed
- Major consumers stockpiling with oil – oil scarcity increased
- Other producers eventually caught up with the demand, offsetting Iranian production cuts
- 1980 – outbreak of the war between Iraq and Iran
  - another blow for the Iranian production
  - situation stabilized in mid 1980s



# Oil Production of Selected Countries During the Iranian Revolution



# Key Events for the US Oil Policy

- The Suez crisis (1956) – efforts to replace British influence
  - unsuccessful - Egypt turned away from the West, nationalized the canal – intervention of UK, FRA and Israel – Saudi oil embargo: US intact – clear warning (mind the rise of nationalism)
  - UK and FRA under Saudi embargo
  - limited impact, still a clear warning
- 1960 – OPEC founded – at first as rather underestimated actor, internal disputes
- 1967 – Six-day war – limited oil embargo (US, UK, W Germany)
  - both embargoes were selective and limited in the duration; also did not include production cuts, limited in time

# Oil shock of 1973

- Early warnings – nationalization of assets of US OCs in Libya and subsequent price rises – an inspiration for other OPEC countries
- 1968 – OAPEC – important for later development (rather an „OAPEC embargo“ than „OPEC embargo“)
- Yom Kippur War - production and supply cuts from mid-October 1973, total embargo after US decision to help Israel
- Spring 1974 – embargo ended
- Influx of ‘petrodollars’ to producing countries – strengthening their confidence and accelerating the process of nationalization
- Position of USSR indirectly strengthened

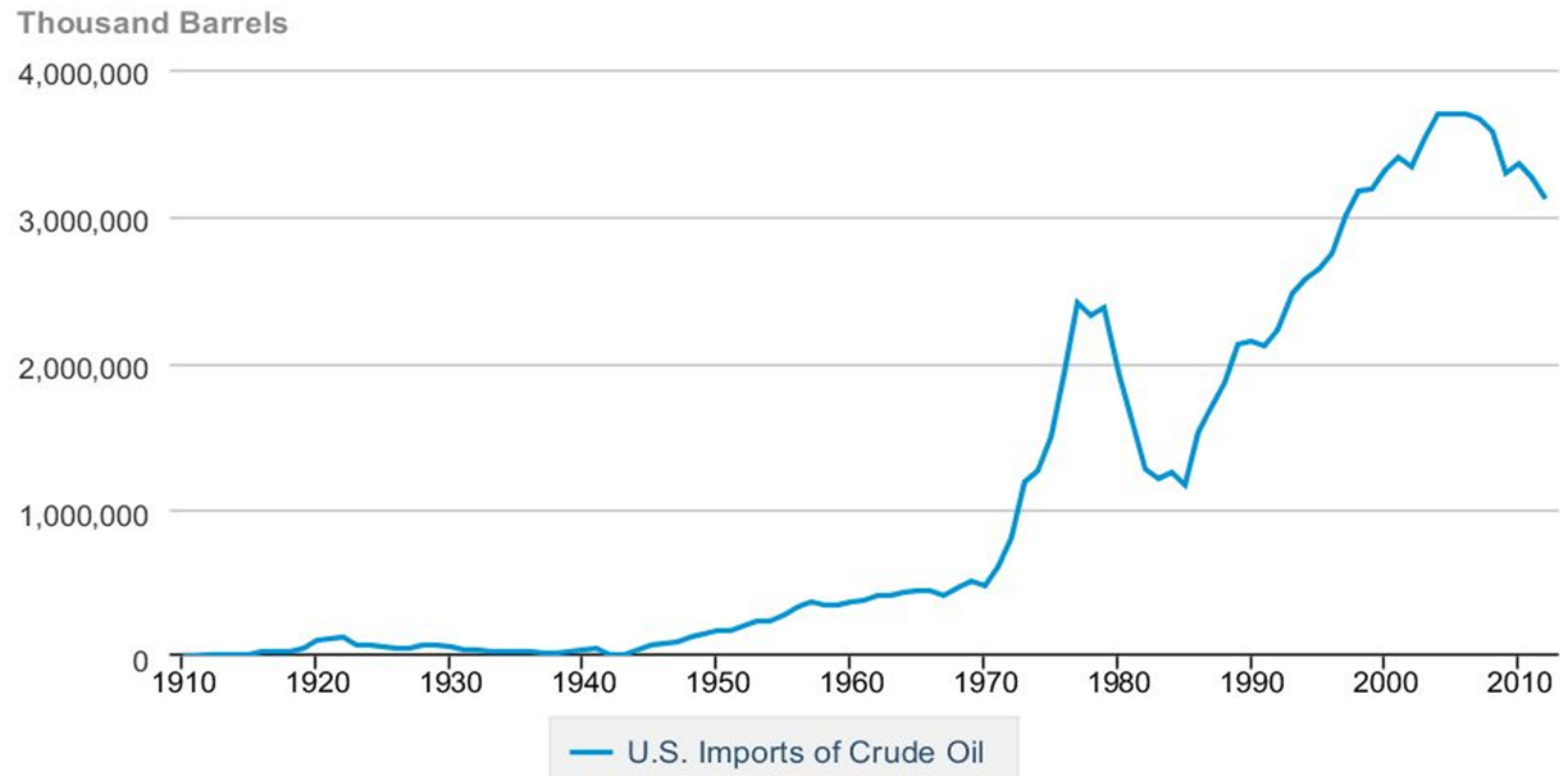


# Oil shock of 1973

- Bad timing for the world economy
  - end of the Bretton-Woods system
  - already rising oil prices before the embargo
  - rapidly growing consumption and import dependency...
  - supply/demand disparity
- Major consumers were stockpiling with oil – oil scarcity increased
- Impact on the global scale
- Geopolitical implications – concerns about the outcome of the CW, US withdrawal from Vietnam, Watergate, decolonization, economic issues, ...
  - US as a weakening power?

# US Oil Imports

## U.S. Imports of Crude Oil



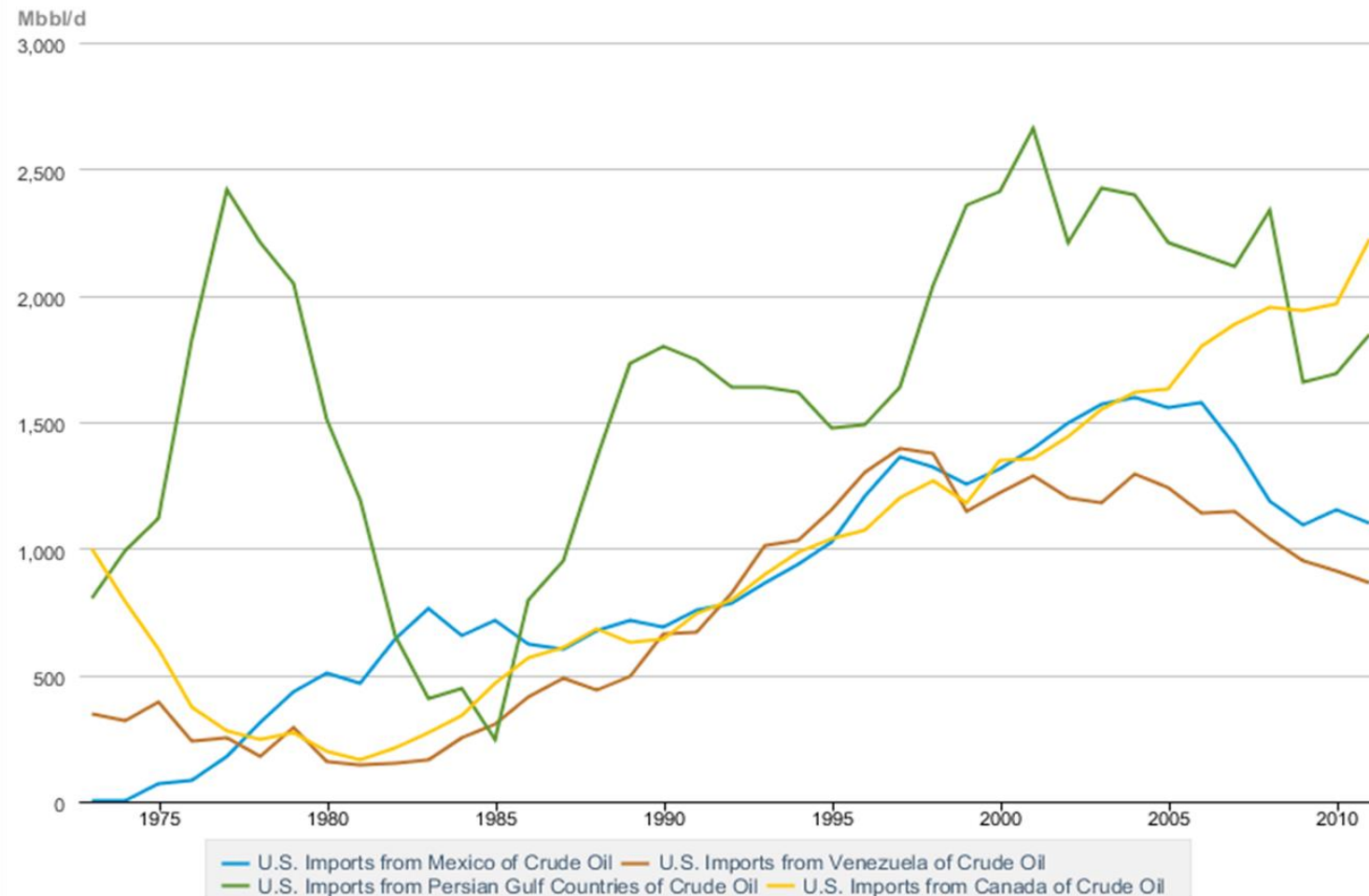
# Consequences of the 1st Oil Shock

- ‘Oil Weapon’ became a reality
- Positions of producing countries and OPEC were strengthened, IOCs weakened (and the views were pessimistic...)
- Further nationalization (Venezuela, SA – during 1970s)
- Oil prices quadrupled, accelerated inflation, economic development slowed down or stopped, unemployment in the US doubled, ...
- BUT! – serious blow for developing countries
- Global impact despite rather selective nature of the embargo
- Oil imports from ME substantially decreased – blow for the economy

# Embargo as a Double-Edged Sword

- Credibility of oil producers substantially harmed – source of concern for SA even before the embargo
- A serious blow for producers' economies – reluctance for future use of the oil weapon
- Supply diversification – away from ME – rise of production on the Western hemisphere
  - Canada, Venezuela, Mexico, Norway, UK, diminishing the importance of oil in housing and electricity prod.
- ME producers lost great deal of their consumers
  - efforts to regain their positions
  - increasing production in 1980s
  - price collapsed - Serious (decisive?) blow for the USSR
  - OPEC unity deteriorated

# Oil imports from the Middle East and Other Countries After the Oil Shocks



# 'The Oil Weapon'

- *"Oil is the only thing that the Muslims have which is needed by the rest of the world,"*
  - Malaysian prime Minister Mahathir Mohamad (2002)
- However, oil weapon is now largely discredited
- Mutual dependence of suppliers and consumers
  - Who has a 'bigger stick'?

# Reaction on the Oil Shocks

- Establishment of the IEA
- Energy-related issues in the centre of attention
- Nixon's project 'Independence'
- Establishment of the DoE
- Strategic Petroleum Reserves
- Related legislation: Energy Policy and Conservation Act, Emergency Petroleum Allocation Act
- Corporate Average Fuel Economy (CAFE)
- US economy restructured – oil consumption temporarily decreased (so did the imports), lower utilization in housing and power generation
- Strengthened hemispheric and continental cooperation (lead to NAFTA)
- US efforts to consolidate common approach of western countries perceived as efforts to strengthen its position globally (context: final stage of the CW, Reagan administration)

# Reaction on the oil shocks

- Oil-based power generation in US decreased from 17% to 2%
- US oil imports decreased by 42%, import from ME decreased by 87%
  - affected by economic crisis
  - total oil consumption between 1979 – 1985 decreased by 15%
- Ongoing nationalization of oil industry in the world
- Carter's doctrine – the Persian Gulf as an area of vital US interests
- Second oil crisis only accelerated ongoing processes in the Western states and implementation of related measures
- Following oil prices slump in 1980s
- 1970 – 10% of oil production capacity owned by producing states
- 68% by 1980



# Questions

- Who has the power: consumers or suppliers?
- Oil weapon as an effective tool or double-edged sword?
- Nationalization – good or bad? For whom?