Suez and the United States: Oil, Lifelines, and "All of Mankind" in the Cold War

Christopher R. W. Dietrich

Abstract This chapter analyzes the rhetoric and policy of U.S. officials regarding oil and the Suez Canal during the early Cold War. When William J. Casey warned experts that the 1970s energy crisis was "a strategy of progressive strangulation" and that American military power was the best response, he drew on a decades-long set of beliefs that identified the Suez Canal as an artery for the economic health of "the West." According to that perspective—which took root after World War II and drew on earlier strategic discourses of the British Empire—the supply of cheap oil was crucial to the political-economic health and national security of the capitalist world. Beginning with the threat of economic nationalism and the creation of the concepts of a "world oil market" and interdependence, that powerfully ingrained perception is critical to our understanding of twentieth century international history.

Keyword The United States · Cold War · National Security · Political Economy · Arab–Israeli conflict · Energy crisis · OPEC

C. R. W. Dietrich (✉)
Fordham University, Bronx, NY, USA
e-mail: cdietrich2@fordham.edu

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C. Lutmar and Z. Rubinovitz (eds.), *The Suez Canal: Past Lessons and Future Challenges*, Palgrave Studies in Maritime Politics and Security, https://doi.org/10.1007/978-3-031-15670-0_4

Former State Department appointee and Export Import Bank chairman William J. Casey scolded the group Scientists and Engineers for Secure Energy at Stanford University's Hoover Institute in June 1980. Their main problem, he said, was the shared assumption that the international market for oil was a pure market. Such a statement may have seemed strange to the group, coming as it did from a man who commonly called for small government and market freedom. But when Casey turned to strategy, such ideology meant little to him. Oil prices were not "as impervious to human intervention as, for the example, the activity of the Mount St. Helen's [or] the will of Allah," he continued. Prices were not the result of natural economic actions, in other words, but contingent political ones. They were related, in short, to geopolitics and, in the case of the United States for Casey, the willingness to use military power.

Casey's interpretation of twentieth-century history followed a well-trodden path and was shared by many U.S. strategists at the end of a decade shaped by the energy crisis and the Iranian Revolution. He believed, for example, that history had taken a wrong turn with the "liquidation of the British Empire" in the Middle East beginning in the 1950s. Before, when Great Britain was predominant in the region "bounded by the Suez Canal, the Red Sea, the Tigris and the Euphrates," what Casey identified as broader Western interests in the Persian Gulf and the Indian Ocean had remained unchallenged. But the British decision to leave the Middle East, beginning after the 1956 Suez Crisis and culminating in the 1971 British scuttle from its East of Suez stations, had left a vacuum. And if "geopolitical nature abhors a vacuum in any region," he continued, it did so most emphatically in the Middle East. For Casey, the British vacuum left the region open to threats from the Soviet Union, East Germany, and Cuba. And while some of the Stanford scientists' and engineers' misguided countrymen saw the decline of the British Empire as "a triumph of the principle of national self-determination over the dark forces of colonialism," the conferees should know better than to engage in such naïve morality tales themselves. Blind acceptance of economic sovereignty had culminated in an "anarchical situation … sparked by the contrived scarcity of oil and the mounting perils to the West's physical access to the Middle East's sites of oil production."

The energy crisis was "a strategy of progressive strangulation," Casey warned. And without a purposeful show of strength, it would continue. Oil-rich Arab states, whether Cold War allies or enemies, would keep

"squeezing the West for the last ounce of economic and political concession that they can wring from an increasingly demoralized West." Casey identified other problems he saw with the region: "vengeful hatred and growing contempt" for liberal values and the "warlike" nature of Islam chief among them. Even worse, many in the United States had fallen into the trap of "revulsion from its own historical achievements," which led to a sort of "self-immolation" and the "abdication of Western power" in the region. Such popular tropes, woefully misguided from his perspective, elevated his strategic concern. "The Islamic people of the Middle East will concede the West's legitimate and vital interests in their lands and their resources when they are forced to do so," he said. But there was a glimmer of hope. If the Arab oil producers could play politics with the economics of oil prices, so could the United States: "The doctrine of necessity in international law sanctions the use of force against a threat to a nation's very survival."[1]

Hope came in the form of Ronald Reagan. That year, Casey had begun to direct the former California governor's presidential campaign. He would press Reagan to emphasize President Jimmy Carter's weakness—in his 1980, speech he called that a "paralysis of will"—regarding both oil and the Middle East. One year later, he would be named the director of the Central Intelligence Agency and would form part of a planning team that put into action policies that the Reagan administration depicted as a major shift toward a more assertive position for the United States in the region.[2]

But continuity was just as important as change in that moment. When Casey identified the oil that flowed in part through the Suez Canal as an artery for the economic health of "the West," he tapped into a deeper history of U.S.–Middle East relations and beliefs about the international political economy that linked the canal to global and U.S. economic stability. That rhetoric, which became supercharged during and immediately after the 1956 and 1967 crises in the region, remained influential even as the importance of the Suez Canal declined, especially upon the renewal of a state-subsidized program of oil "supertanker" construction in the late 1960s and early 1970s. The staying power of that threat perception makes sense, though, in part because it was so powerfully ingrained; after all, for much of the twentieth century British imperial forces had even used the canal as the border that divided its global forces into two zones: "East of Suez" and "West of Suez." That geostrategic division

itself arose from a basic understanding that the Suez Canal was a necessary pathway for healthy international commerce. That belief itself became more powerful in the United States in the second half of the twentieth century, as oil became a crucial natural resource for the well-being of the domestic economy, the power of the national military sector, and the strength of the nation in the Cold War.[3]

Suez, Oil, and the Early Cold War

The artist Boris Artzybyasheff depicted the threat of nationalism to the Middle East in his 1951 Man of the Year cover for *Time* magazine, which featured Iranian Prime Minister Mohammed Mossadeq. Looming behind an immaculately detailed color-pencil drawing of Mossadeq in a dark suit and tie was a globe that depicted the region. Over the prime minister's left shoulder was the Persian Gulf, with several oil derricks. Over his right shoulder, two oil tankers had just plied the Suez Canal, one traveling northward in the Mediterranean and the other traveling southward in the Gulf of Suez. Clenched fists burst through the ground in each area. In case the image was too subtle for readers, the magazine's editors left no doubt in their title: "MAN OF THE YEAR: He oiled the wheels of chaos." The cover was less about the man himself and more about the threat he posed.

Such popular fear in the United States arose in part out of an uptick in nationalist self-assertion in the decade after World War II. In the Middle East, notably in Iran and Egypt, nationalists emphasized the economic predations of formal and informal imperialism. The focus on economic imperialism and economic nationalism led to a sense of common struggle shared by those two nations. When he traveled to New York to present Iranian arguments in support of oil nationalization in 1951, Mossadeq emphasized the broader notions of economic sovereignty and its links to decolonization.[4] For doing so, he was welcomed in Cairo "as a victorious leader who fearlessly faced Britain." Newspapers and the growing urban political class in Egypt drew a sharp connection between British control over the Abadan refinery complex and the Suez Canal. The prime minister, who was deposed in a United States- and British-supported coup in 1953, tapped into a more widely felt popular criticism of the Anglo-Iranian Oil Company across the region. Examples abound. In one, the poet Sayyid Qutb, a member of the Muslim Brotherhood, published a

poem in the popular newspaper *Al-Ahram* on the day of Mossadeq's visit, which read in part:

> Mossadeq, son of life, nobleman
> Hero of the Muslim East
> Trustworthy and alerted guard
> Withstanding the criminal thief's power
> You are the torch of triumph that you have lit
> With the oil and your own inspired heart
> You lived and brought to their pirates
> The fire of the East of our burning oil.[5]

Demonstrators that lined the streets from the Cairo airport to his hotel received Mossadeq with a sign that hailed him as "the foe of imperialism."[6] In another example, a woman orator at Abadan described oil as "the Jewel of Iran" and accused the British of spending more on dog food than on workers' wages.[7] When Chinese foreign minister Chou En-Lai addressed delegates at the First Afro-Asian Conference in Bandung in April 1955, he highlighted the struggle of Egypt and Iran over the "restoration of sovereignty over the Suez Canal Zone … and over their petroleum resources." Those political-economic battles had "won the support of all the righteous people in the Asian-African region."[8]

At the same time as both Suez and Adaban became symbols of economic nationalism, the concept of the "world oil market"—both a political-economic construction and useful shorthand—became commonly used among U.S. oil experts, government officials, and the general public. Such a global perspective further linked nationalism in Iran to the question of trade through the Suez Canal. Iran supplied more petroleum to the "world market" than any other country in the Middle East when the last tanker sailed from Abadan in June 1951, the American oil expert and government consultant C. Stribling Snodgrass told the U.S. Secretary of the Interior. Iran accounted for more than one-third of all Middle Eastern production, about 7% of non-communist petroleum supplies, and more than one-fourth of all refined products supplied from outside the Western Hemisphere. Its production amounted to 660,000 barrels per day, of which most was processed at Abadan to make 46% of the aviation gasoline produced in the "free world," as well as substantial amounts of residual fuel oil, kerosene, diesel, and motor gasoline that went to continental Europe, South Africa, and Asia. Such supplies

had become even more important because of the Korean War (1950–1953). The Foreign Petroleum Supply Committee reported that Abadan's strategic value was magnified because it furnished "the preponderant part of total requirements" for India and the Red Sea area, including most of the bunker oil for military and merchant ships "operating in the vast ocean areas from Suez to Sumatra." When oil companies worked to compensate that loss, the increased production from other areas "threatened to wipe out the existing thin margin" between supplies and requirements in the United States and "other parts of the free world." The stakes were tremendous. Such an event in turn threw into jeopardy "the entire mobilization of the United States."[9]

The constancy of such statements reminds historians that what one contemporary political scientist described as the "rise of self-assertion" occurred alongside a noted increase in the visibility of oil as a national security requirement for the United States in the Cold War.[10] The historian David Painter has described this turn of events in an influential series of articles.[11] The United States directed massive amounts of oil to the rehabilitation and rearmament of non-communist Europe from the Middle East as part of the Marshall Plan. Between April 1948 and December 1951, the Marshall Plan provided more than $1.2 billion for the purchase of petroleum and refined products, more than 10% of the aid extended as part of the plan. The percentage of Middle Eastern oil that comprised Western European oil imports increased from around 20% before World War II to 85% by 1950.[12] Increased oil use was central to the recovery of other key industries, including ground and air transportation and agriculture. By 1952, almost all the oil imports to the Marshall Plan countries were supplied by the Middle East. Petroleum was "the most important single commodity entering into international trade measured whether by volume or by value," U.S. officials consistently reasoned, both in public and in confidential correspondence.[13] Oil had great strategic value because it was "the one economic richness" that could save European society by rebuilding its economy, the CIA's Kermit Roosevelt wrote in a popular 1947 book.[14]

Officials in the United States thus painted the potential loss of oil in alarmist terms, and almost always connected oil supply with the nation's success or failure in the Cold War. Such concerns were intimately bound to both the fear of nationalism and the growing traffic of the "world market" through the Suez Canal. When the U.S. multinationals

temporarily abandoned pipeline construction owing to the 1948 Arab–Israeli war, for example, the canal became the beneficiary of what the US ambassador in Cairo, Stanton Griffis, called "the great fairyland of Near East oil." Griffis described the canal in a 1948 letter to U.S. Secretary of Defense James Forrestal: "Through the Canal daily go a long line of merchant ships and tankers, and you may realize something of its tremendous current prosperity if you read the Canal tariffs and know that the Canal tolls for a loaded tanker amount to approximately $15,000 and the tolls for the return of the empty tanker amount to about $7,500."[15]

That profitable trade was within spitting distance of the Soviet Union. "Here is the danger spot, here the possibility – a lightning dash by the Russian armies to cut off the Western world from the oil fields and possibly even attempt [to take] the canal itself," Griffis worried. That view, which seems so alarmist in retrospect, was widely shared among oil and regional experts. "The Middle East lies within easy grasp of its neighbor to the north – the Soviet Union," the German émigré and State Department oil consultant Walter Levy said in one speech in 1951, which was reprinted in the journals *World Petroleum* and *Oil Forum*. "In one bold, swift move Russia might not only realize its age-old desire of gaining access to warm-water ports but it could use the area as a springboard for thrusts either toward India in the east or toward Europe in the West, at the same time cutting off the free world from Suez and the entire Asian continent."[16] The United States and the rest of the free world could ill afford to do without the oil that flowed from the region's prolific wells.

"The Loss of Suez," 1956

Such drastic fears did not come to pass. Today's diplomatic histories of the political economy of the Suez Canal instead focus on the numerous twists and turns of policymakers as they confronted a simmering crisis in the early 1950s.[17] Historians have duly noted the complicated road by which the Eisenhower administration arrived at the decision to use its own oil power coercively in order to raise the costs of the British–French–Israeli actions.[18] In this chapter's brief overview, it is sufficient to say that the Suez Canal became an emblem of the national security threat of losing oil that culminated in the economic diplomacy of the 1956 crisis.

To put it more plainly, the Eisenhower administration conducted diplomacy amid a rising clamor of domestic concern about the effects of Arab nationalism on the international oil trade. Oil experts who worked closely

with the U.S. government helped perpetuate the consensus. Industry in the United States, Western Europe, and Asia was increasingly vulnerable to interferences with the flow of oil, Levy held in a 1957 speech. The speech used statistics that he would forward to the State Department in his role as their expert consultant. The crisis blocked 1.35 million barrels daily from the Middle East. When Syria blew up the pumping stations of the Iraq Petroleum Company, it blocked about 550,000 barrels more. All that remained of Europe's normal deliveries from the Middle East were 200,000 barrels moving from Saudi Arabia to the Mediterranean via the Trans-Arabian Pipeline. Supertankers, a new concept at the time, were not a feasible option, because they could not long-haul the same volume of oil to Europe around the Cape of Good Hope. The continent thus had to turn to the Western Hemisphere, and tanker priorities were given to the movement of supply from the Gulf of Mexico and Venezuela. By the end of the year, the United States was providing about 500,000 barrels per day of crude oil and products to Western Europe.

The problem with the supply of oil was linked to other concerns. Great Britain, for example, depended on Suez-route imports for much of its industrial raw material base. Almost all of Britain's jute, rubber, and wool moved to the nation through the Suez Canal. The interruption of the route also caused their currency position to badly deteriorate. The problem of the sterling area's holdings of gold and dollars became exacerbated, causing the British to request waivers on the interest payments it owed on postwar loans to the United States.[19] Whitehall also requested, and was granted, the right to draw on its full IMF quota and a new line of credit from the Export–Import Bank for the purchase of oil and other goods. If the canal remained closed for any considerable length of time, Levy predicted, "the economic repercussions on Europe will multiply rapidly." The effects of fuel and raw material shortages and the deterioration of capital holdings would begin to accumulate. Instability in production, employment, and income would begin to rebound upon each other. "It would not be hard to visualize an economic crisis of appreciable dimensions," he argued.

The problem was made worse by the "stern reality" of continued Western European dependence on Middle Eastern oil, as well as the fact such dependence left the noncommunist powers in a "seriously compromised position" in the region. To explain this, Levy returned to a concept

he had written about previously: interdependence.[20] In his discussions of the capitalist economy after World War II, interdependence among the many parties that partook in global oil had allowed for opposing considerations to be accommodated and stability achieved. But interdependence had been decisively weakened by nationalism. "In the Middle East," Levy said, "interdependence is now of decidedly unequal urgency." By this, he meant that Europe's dependence on the Middle East for 80% of its crude imports, with no real alternative, had provided what he considered to be immoderate nationalists, like Nasser or Mossadeq, with an effective weapon:

> The very dynamics of that nationalism – anti-colonialism, anti-exploitation – make existing oil arrangements an inevitable target for attack. Nor can the West rely on the importance of uninterrupted oil operations and oil revenues to Middle East governments as a deterrent to hostile actions. Economic considerations, important as they are to the relatively impoverished countries of the area, become insignificant when confronted with political necessities of political pretensions.[21]

In this way, the question of canal traffic was linked to nationalism, nationalism to oil, and oil to the stability of the Sterling area. All of that then became connected to the question of global economic health writ large. Lest one think that Levy was a lone boy crying wolf—and some discounted him as the next iteration of a long line of prophets of doom when it came to oil—it is clear that his concerns were echoed even in the driest official correspondence. When Great Britain, the United States, and France issued a Tripartite Statement from London at the beginning of the Suez Canal crisis in August 1956, for example, they hit a similar note. The decision by Nasser to take control of the canal "involves far more than a simple act of nationalization," they said. It was an "arbitrary and unilateral seizure" of an international waterway "upon which the economy, commerce, and security of much of the world depends."[22]

"The world was precariously off-balance," Levy said. Along with the Iran crisis, the Suez Canal crisis and the Iraq Revolution of 1958 were thus perceived as a general threat to the United States because instability in the oil industry unearthed a potentially disastrous fault line in the capitalist success story that was a crucial weapon in the Cold War. An expansive vision of national security guided both perception and policy. "At the present time our allies in Western Europe are dependent upon

Middle East oil resources," the National Security Council concluded at the end of the Iran crisis. "Unless adequate petroleum products are available for its essential requirements, Western Europe is not defensible, and it will be lost and become a liability for the free world."[23]

The Suez Threat in 1967

The fear of imminent economic crisis passed relatively quickly in 1956 and 1957. "The events of the last few months have demonstrated, perhaps more conclusively than ever before in our history, the fundamental strength and soundness of our present petroleum position in the United States," Herbert Hoover, Jr., who had just left the State Department to return to his private consulting business, told the American Association of Petroleum Geologists in 1957. "We found that notwithstanding a major disruption in the flow of oil elsewhere in the world, our economy and our daily lives continued to move forward with no apparent ill effect whatever."[24] But it was clear to all who had eyes to see that the closure of Suez raised concerns of calamity. The stakes regarding the canal were greater than the abstract principles of uninterrupted shipping or international commerce. What mattered most was the availability of Middle East oil through what *Time* magazine called Europe's "lifeline *to* the East," echoing more than half a century of British imperial economic rhetoric, and *Newsweek* called more generally "the lifelines *of* the West."[25]

The United States also began to look for alternative sources of "nonpolitical" energy in the wake of the Suez Crisis, including closer collaboration with allies regarding "nuclear economics" and atomic power.[26] At the same time, U.S. officials and oil executives became encouraged that Libya's "short haul" production, just across the Mediterranean from Western European markets, was a safer source than more politicized Persian Gulf oil that had to travel through Suez or Mediterranean-bound pipelines that traversed Syrian territory.[27] In the United States itself, politicians from oil-producing states used the Suez Crisis to emphasize the threat of instability in the Middle East and to call for federal support for domestic production. The Texas Independent Producers and Royalty Owners Association, among the loudest and most influential domestic production groups, criticized what they called the "one-world resource viewpoint" of the Kennedy and Johnson administrations. The

United States had good reason to press instead for “U.S. relative self-sufficiency of this number one munition of war,” the Texas independents wrote in 1965. “Any one of our major import sources could be cut off in short order, as was the case no later than 1957 when the Suez Canal was closed and the Middle East supply denied to us and our free world allies.”[28]

Fear remained influential in the realm of domstic politics. The sense of confidence that Hoover, Jr., embodied was nonetheless emboldened just two years later during the 1967 Arab–Israeli war and Arab oil embargo. When U.S. officials confronted the embargo and the closure of the Suez Canal and the Trans-Arabian Pipeline, they were concerned at first. The four biggest crude importing nations in Europe (Italy, Great Britain, Germany, and France) and the three biggest in Asia (Japan, Australia, and India) relied on the Arab world for more than 60% of their imports. Officials were also concerned about oil for the Vietnam War. Like the Texan oil men, defense intellectuals and military strategists from Alfred T. Mahan to Chester W. Nimitz had held that fuel was “the number one munition of war,” and the embargo became an explicit threat to the supply of 90% of the aviation gasoline used for the war’s bombing campaigns.[29] Finally, U.S. officials became concerned about the domestic effects of the embargo, including sharp price increases and, if domestic production shifted from consumer use at home to military use in Vietnam, rationing in the United States.

But the nation again weathered the crisis. The U.S. Justice Department lifted antitrust regulations and the Oil Committee of the Organization for Economic Cooperation and Development, operating out of Paris, put in place market-sharing contingency arrangements to allow the major oil companies to shift supply and offset the disruption caused by the embargo.[30] Supply from the United States, Venezuela, and Iran was enough to offset the Arab loss. Moreover, strong evidence exists that the U.S.-allied Arab monarchies of Saudi Arabia, Kuwait, and Libya all broke the embargo. By the end of the summer, despite some handwringing in New England about home heating oil prices, there was a general sense that the United States had coped well with the problem.[31] The American Petroleum Institute, another important domestic interest group, celebrated the ability of domestic production to meet national requirements and send a substantial volume of oil to Europe despite “the shutdown of the Suez Canal and an Arab States’ embargo.”[32] Richard Nixon echoed

the most common dismissal of oil nationalism soon after: "The Arab oil producers cannot drink their oil."[33]

The Energy Crisis

The new president might have been technically and gastronomically right. But the sentiment was increasingly wrong-minded. The 1967 Arab oil embargo marked an important transformation in the international political economy of oil. For one, the related Arab withdrawal of money from British banks exacerbated a national financial crisis that pressed the United Kingdom to reconsider its military commitment to the Persian Gulf. British Defense Minister Dennis Healey warned the elite Fabian Society that "a disorderly British departure … could lead to a prolonged conflict interrupting oil supplies," but such a massive shift could only be marked by instability.[34] Making matters more difficult, the British withdrawal from its East-of-Suez stations, including the Persian Gulf, occurred right when U.S. leaders realized how overstretched they were in Vietnam. The United States "could not side-slip and take over British commitments," Secretary of State Dean Rusk complained. The British risked "flushing away what had been done since the Second World War in bringing stability to the world."[35] The concern with regional stability also led to another policy decision of far-ranging consequence. The so-called British vacuum, and the inability of the United States to fill it, convinced the Johnson and then the Nixon administration to turn to Iran, and to a lesser extent Saudi Arabia, to provide Persian Gulf security. Iran, in turn, used its new position and need for advanced weaponry to pressure the oil companies of the Iran Consortium to increase its profits. The rising oil nationalism of Iran became an effective floor on which more assertive oil-producing nations like Iraq, Algeria, and Libya could press for greater control over production and prices.[36]

The canal continued to be a reference point for geopolitical analysis, sometimes creatively so. The Soviet Union sought to "dominate the Mediterranean by establishing control over a triangle with its points at Suez, Aden, and Djibouti," the Shah of Iran argued to Henry Kissinger at one point, when calling for increased arms sales. If Moscow gained control of the canal, it would allow Soviet leaders "to consolidate their control in the Red Sea and to ease their access to the Indian Ocean and ultimately to the Persian Gulf."[37] The Shah made those arguments in the context of intense pressure for greater production from the Iran

Consortium, which would pay for his nation's ballooning arms sales demands. Iran's policies would increasingly dovetail with its more radical counterparts within OPEC, especially Libya.

An interagency analysis led by the State Department in December 1967 noted that the danger of recurring embargoes "and the continued closure of the Suez Canal" required consistent appraisal of the place of Arab oil in U.S. national security planning. Because of its geographical position and high production, Libya was "uniquely important for Europe today." But that nation and its place in the world would also be transformed by the 1967 war and embargo. Importantly, the war led the oil-producing nations to speed up the changes they had discussed within OPEC and at Arab Petroleum Congresses for over a decade: new deals with the oil concessionaires, development of state companies, direct contracts with consuming countries, and the ultimate goal, the use of collective power to control production and increase prices.[38] In a merger of pan-Arabism and economic anticolonialism, the charge that the oil companies were neocolonial instruments of Western control gathered force after the Six-Day War. "The war will mean a turning point in our thinking," one Arab leader confidently predicted to the influential oil journalist Wanda Joblanski in June 1967.[39]

Nowhere was this assessment more significant than in monarchical Libya, which had been an important Cold War ally to the United States since its United Nations-induced inception in 1951. Ambassador David Newsom joined a long line of officials who warned that criticism of U.S. oil shipments and the occupation of the Wheelus Air Base threatened the viability of "this friendly, hard-pressed government."[40] "The Libyan government is the most fragile of all regimes," the president of Standard Oil New Jersey told the Johnson administration in June 1967.[41] A more detailed sociological analysis prepared by the U.S. Embassy in Tripoli noted that a 25-year old in Libya in 1969 was 7 years old at independence, 12 during the Suez Crisis, 17 when the nation's oil boom began, and 23 during the Six-Day War. The concurrent growth of income, educational opportunity, and Nasserist propaganda efforts had made young people in the nation "socially restive."[42]

A nation that had been a Cold War asset for the United States and the free world political economy became a liability upon the Libyan Revolution of September 1969. The same year, the international oil market changed from a buyers' to a sellers' market. American society had become more and more premised on high energy consumption, and oil

provided an increasingly large share of the nation's mounting needs. In the period after 1946, when coal yielded its fuel leadership to oil and gas, petroleum increased its share of the domestic energy market to the point, by the late 1960s, that it supplied almost three-quarters of the nation's total energy needs. More and more of that oil came from abroad; between 1950 and 1966, the share of imported oil of total supply in the United States increased from 12.6 to 21.2%. Cheap oil also continued to support the development of the industrial and commercial sectors of the United States' most important allies in Europe and Asia. Moreover, nations like Brazil, Mexico, Turkey, and Indonesia were all modernizing to different degrees with a reliance on oil for economic growth. And even if the United States still consumed only a small percentage of foreign oil compared to Western Europe or Japan, consumption rose at a precipitous pace each year. In 1968, the Department of the Interior projected "enormous" demand increases for the following fifteen years and the American Association of Petroleum Geologists noted a marked decline in proven reserves, raising the specter of "peak oil" or, as the Department of the Interior had it, "the law of diminishing returns – an inevitable concomitant of the extractative process."[43]

The appetite for oil grew unabated in the industrialized nations and, increasingly, in the developing world. The fact that the production of oil in the United States seemingly had reached a peak had important diplomatic consequences because the nation could no longer provide the spare capacity to offset supply stoppages elsewhere, despite the aggressive public–private programs for offshore and shale development after 1967. State Department oil expert James Akins explained the ramifications of the dry market for the international political economy in an influential 1973 article for *Foreign Affairs* called "This Time the Wolf Is Here": a production loss from any major producer could cause a "temporary but significant world oil shortage." OPEC members now held what Akins called "economic leverage," which he predicted would make it more likely that they would "hold together, to raise prices and conceivably to limit output."[44]

This was a self-aware example—"the wolf is here"—of what political scientist Joseph Nye later described as a new "rhetoric of energy security" in the United States, which for him confirmed a collective anxiety about oil supply and prices.[45] The rhetoric itself was not new, and extended at

least as far back to the early Cold War. But the situation had changed; Akins and other U.S. experts were less concerned about supply or the Suez route and more concerned about prices. Supported by the other OPEC nations in their quest to "safeguard their legitimate interest," the new Libyan government of Muammar Qaddafi pressed the weakest independent oil company, Occidental Oil, for new terms in its contract.[46] In September 1970, the major oil companies agreed to the new Libyan terms. Afterward, aided by a hands-off policy from the Nixon administration toward Libya and Iran, as well as support from Saudi Arabia, OPEC pressed to apply the terms to the concessions of the other member nations. "It would be a mistake to expect a return to the situation which existed prior to the Libyan oil settlement of September 1970," a State Department task force reported.[47]

The OPEC nations used their superior market position and unassailable position regarding economic sovereignty to press for production control and greater profits, and in February 1971, the international oil companies signed a new oil tax and price agreements in Tehran and Tripoli. Officials in the Nixon administration began to discuss what they called "the developing international oil crisis."[48] That crisis would pale in comparison to what came next. The shortcomings of the postwar political economy of global oil—the dependence on cheap Middle Eastern sources, the high levels of consumption, the inability to accommodate nationalism—became more and more obvious. "If the Libyans succeed again, they could well trigger even higher demands from the other OPEC members," Henry Kissinger and NSC economic adviser Fred Bergsten warned Nixon. The United States had little control over its energy future. Given the strong market position of OPEC, the fact that US allies, including Saudi Arabia and Iran, were coordinating oil policy with Libya, the tight world market, and the association of high levels of energy consumption with US standards of living and global economic health, the United States would need to be "tactical and reactive."[49]

American oil fortunes spiraled downward between 1971 and 1973. The devaluation of the U.S. dollar led OPEC to increase prices again in September 1971. When the British left their East-of-Suez stations and the Shah of Iran took disputed islands in the Persian Gulf that December, Libya responded by nationalizing the BP-owned Sarir Oil Field. *Al-Thawra*, the official daily of the Ba'ath in Iraq, connected the Libyan nationalization to the Iraqi refusal to settle on the long-disputed Rumaila oil field. In April 1972, Iraq also nationalized production. Unlike in the

early 1950s, the multinational corporations and their governments were unable to successfully boycott nationalized oil. The Beirut-based *Arab Oil & Gas* noted that the continued closure of the Suez Canal gave Iraqi oil an advantage in Asian markets. Barter agreements with India and Ceylon, for example, helped Iraq beat the campaign against nationalized "black oil."[50]

Conclusion

The context for "oleaginous diplomacy," as the historian Edward Mead Earle called it in the 1920s, was in the midst of transformation.[51] The nationalization of French interests in Algeria and the Reversion Law adopted in Venezuela further portended new rules for the oil industry. Saudi Oil Minister Ahmed Zaki Yamani led the more conservative Arab oil producers to press for "participation," achieving an agreement in January 1973 by which the governments would take up to 25% control of their concessions with clauses giving them 51% by 1982. In competition with Saudi Arabia, Iran forced a new sales contract onto its concessionaires. Companies then yielded 51% of their concessions to the state in Libya.

In each of these cases, the companies acted under the threat of immediate nationalization, and US officials encouraged the oil companies to compromise with the oil producers, especially their allies in Saudi Arabia and Iran, to maintain "an atmosphere assuring the stability of the international oil market rather than precipitous unilateral action by the producer governments."[52] Kissinger and NSC economic adviser Peter Flanigan described the problem to Nixon in planetary terms. Acceptance of the new rules was better than "immediate confiscation" with no negotiation and with compensation based on depreciated book value, which "would set a precedent not only in the oil industry, but in the entire extractative industry."[53]

All the while, the OPEC ministers emphasized that it was their sovereign right to control production and the price of oil. Nationalism continued to be a useful rhetorical tool for oil radicals and moderates alike. "Our battle," Iraqi Vice President Saddam Hussein told Abdullah al-Tariki, the editor of the influential Beirut magazine *Arab Oil & Gas*, "is with the foreign monopolies."[54] The Shah of Iran wrote to Nixon that time was running out for the oil companies "to meet our legitimate rights and reasonable demands."[55] The oil and finance ministers of these

and other producing nations consistently cited international law, established through the UN Economic and Social Council and the General Assembly, that protected their sovereign right to control their most fundamental natural resource. "The tide of nationalism is so strong that their days are numbered unless they rise with it," NSC Middle East expert Harold Saunders wrote of the companies.[56]

There seemed to be little the United States could do. Kissinger ordered a National Security Study Memorandum in 1973, which concluded that the continued growth in world demand would be met largely in the Middle East, where experts expected production to double by 1980. Moreover, the United States had accepted "as a fundamental principle of international law that a host country has the right to expropriate." That right intertwined with "recent and growing awareness of producer governments that oil is … a commodity that can command a premium price." The United States needed to expect that the OPEC members would "sell oil in the future for as much as the market will bear."[57]

The question had become less one of oil supply for international economic well-being and national security, as it had been since the beginning of the Cold War, and more about what prices the capitalist world economy could bear. Since OPEC's founding in 1960, the group's members had pushed for greater control so that they could increase prices. They finally found success. In February and June 1971, Persian Gulf posted prices were increased by about 27%, in January 1972 by another 8.5% because of the Smithsonian Agreement. In January 1973, they increased a further 4.5% and, with the dollar devaluation of February 1973, prices rose again in April by 6% and in June by another 6%. The price of Persian Gulf oil had tripled in just under three years by October 1973. Early that month, the OPEC nations extracted another 70% increase.[58] Then the third Arab–Israeli war broke out and, on October 16, Nixon ordered an airlift to Israel. The Persian Gulf producers announced an immediate, unilateral price increase of 70%, and the price per barrel rose from $3.01 to $5.11. All of the Arab oil producers cut off their supplies of oil to the United States by the next week, a total of about 2 million barrels per day. Saudi Arabia also announced an overall 10% production cut and, under the aegis of OPEC, Iran and Venezuela joined the Arab producers to announce further price increases. By February 1974, the price of Persian Gulf oil had nearly quadrupled.

No one had imagined that prices could ever rise so swiftly, so totally. Speculation on the consequences was rife, even though the supply situation was not so bleak as originally feared. "This could be a true disaster," said William Clements, the Deputy Secretary of Defense, echoing Eisenhower administration officials in the 1950s. The influential chairman of Exxon, Ken Jamieson, agreed: "What we are talking about is the possible breakdown of the economy."[59] The problem was a global one, IMF chief Johannes Witteveen wrote to the world's finance ministers. High prices would cause "a staggering disequilibrium in the global balance of payments" that would impose strains on the international financial system "far in excess of those experienced at any previous time in the post-war period."[60] Others linked the new concern with prices to the long-running fear of losing supply. The world was "passing from the illusion of unlimited abundance to the cold reality of the existence of scarcities," UN Secretary-General Kurt Waldheim said.[61]

Such a global view of energy security, the discussion of what Nixon called "a rational structure of prices," built on earlier Cold War arguments about national security and oil supply. The emphasis on oil and worldwide economic stability almost directly echoed discussions about Iranian oil and the Suez nationalization in the 1950s. It also showed marked continuity in the sense that it was wrapped up in older arguments about cheap oil as a universal good. Kissinger revealed the power of identifying Arab oil with global economic health in his important Pilgrim's Dinner speech in December 1973. The Arab–Israeli war had made acute the deeper problem of rising prices, he said, which was "the inevitable consequence of the explosive growth of worldwide demand." The United States thus needed to work with its allies in "the assurance of required energy supplies at reasonable cost." To do so, he continued, constituted the "economic equivalent" of the Sputnik challenge of the late 1950s. "Only this time the giant step for mankind will be one that America and its closest partners take together for the benefit of all mankind."[62]

Notes

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8. Mohamed Abdel Khalek Hassouna, *The First Asian-African Conference Held at Bandung Indonesia* (Cairo: League of Arab States, 1955), 84.
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13. Cornelius J. Dwyer and Oscar E. Bransky, "Success of European Refinery Expansion Program," *The Oil Forum* (November 1952), Walter Levy Papers, Box 25, Folder 2, AHC.
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16. Speech, "Middle East Oil in the Free World," October 1951, Walter J. Levy Papers, Box 1, AHC.
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18. Salim Yaqub, *Containing Arab Nationalism: The Eisenhower Doctrine and the Middle East* (Chapel Hill: University of North Carolina Press, 2004); Douglas Little, *American Orientalism: The United States and the Middle East since 1945*, 3rd ed. (Chapel Hill: University of North Carolina Press, 2008), 157–92.
19. On the sterling and monetary diplomacy in this period, see Steven G. Galpern, *Money, Oil, and Empire in the Middle East: Sterling and Postwar Imperialism, 1944–1971* (Cambridge: Cambridge University Press, 2009).
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