CHAPTER II

THE 1973 OIL EMBARGO AND ITS IMPACT ON OIL RELATIONS OF SAUDI ARABIA AND US

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IMPORTANCE OF OIL

Since the First World War, oil has become an economic commodity of critical strategic importance to the balance of world power. In addition to its vital importance during war-time, oil has come to play a basic role in peace-time economic activity, especially in the post 1945 era.\(^1\)

American strategists realized early on the importance of oil resources in general, but they were particularly interested in Middle East\(^2\) oil and its possible control by American oil companies. Just as it was becoming clear that the Middle East possessed the large oil reserves in the


2. The Middle East is a large geographic region extending over parts of South Eastern Europe, Southwestern Asia and North Eastern Africa. It includes: Bahrain, Cyprus, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Sudan, Syria, Turkey, United Arab Emirates and Republic of Yemen. The United Arab Emirates were formerly British protectorates known as the Trucial State until they combined to form an independent nation in 1971.

The definition of Middle East encompasses the Arab countries of the Eastern Mediterranean plus Turkey, Israel, Iran, Cyprus and Sudan. At times however, authorities have also included the following: the North African countries of Libya, Tunisia, Morocco and Algeria (sometimes referred to as the Maghreb). Afghanistan (in South Western Asia); and on some occasions; African nations bordering the Red Sea on the Eastern Horn of Africa - Ethiopia, Somalia and Djibouti (formerly the French-protected territory of Afars and Issas).

The term Middle East has been in popular use since World War II. Before that time, it was more usual to refer to the region as the Near East and to include in its coverage the Balkan states in addition to the area of the Eastern Mediterranean. The terms 'Middle East', 'Near East' and 'West Asia' are used interchangeably for somewhat indeterminate geopolitical area. A survey of such definitions reveals that most common core to be Turkey, Iran, Israel, Egypt and the Arab States of Asia.

For further details see - Roderic H. Davison, "Where is the Middle East", *Foreign Affairs* (New York), Vol.38, No.4, July 1960, pp.665-675.
world, American oil companies, with assistance from the US Department of State and Trade, began to take up significant concessions in the region.³

By the end of the Second World War, United States Oil Companies had acquired a dominant strategic position in the balance of the world oil industry with its newly acquired status in world politics, Middle Eastern oil became a tool which the United States used to better its position in western Europe vis-a-vis the Soviet Union and 'international communism'. Secure access to oil supplies and the protection and advancement of American interests in the Middle East were accorded high priority among United States goals in the post-war period, but containment of 'international communism' was the major political issue for United States foreign policy:

In Europe, in the Middle East, in Korea in the Third world, the United States strove endlessly for the containment of what was thought to be an aggressive and subverting force controlled from Moscow. Through two decades, the Truman Doctrine, the Marshall Plan, NATO, SEATO, CENTO, military assistance pacts with 42 Countries, and open the secret warfare from Iceland and Vietnam were all varying manifestations of this one dominant doctrine.⁴

Oil and the Middle East played an important part in the implementation of this policy. In terms of priorities, Western Europe was a vital area for American 'national security' an area of core interest.⁵ However, the Middle East was of Special interest to post-war American policy, as both the Truman Doctrine and Marshall Plan were linked to Middle Eastern oil.⁶ James A. Forrestal, the leading secre-

³. Al-Sowayegh, n.1, p.123.
⁵. As defined by Professor Fred Warner Neal a 'core interest' is one which when it is threatened, is considered so vital that the threat is regarded as a danger to the very existence of the nation itself. For details see P.W. Neal, 'The theory of core interests and U.S. Soviet Cold War Rivalry', a paper presented at the Second Annual Meeting of the International Studies Association, 29 March, 1961, p.3
⁶. Solberg, n.4, p. 176.
tary of Defence in the Truman administration, declared in a memorandum to the President:

Without Middle East Oil, the European Recovery Programme has a very slim chance of success. The US simply cannot supply that continent and meet the increasing demands here."

In his book, Middle East oil and the Energy crisis, Joe Stork observes that:

The Truman Doctrine, with its provisions for American military aid to Greece and Turkey, was promoted as being essential to the security of Europe and the United States primarily because of Greece and Turkey's geographical position in relation to the Middle East and its oil. All unseemly references to 'oil' and 'natural resources' were expunged from the final text of Truman's message to the congress in favour of high-sounding abstractions like 'democracy' and 'freedom', but an early draft of the Truman Doctrine contained this contribution from Clark Clifford: 'If, by default, we permit free enterprise to disappear in the other nations of the world, the very existence of our own economy and our own democracy will be gravely threatened... This is an area of great national resources which must be accessible to all nations and must not be under the exclusive control or domination of any single nation'.

THE 1973 OIL EMBARGO

The oil embargo was decided by the Arab oil producing countries on 19 October, 1973, when President Nixon asked the United States Congress to approve $ 2.2 billion in emergency military aid to Israel. As explained by Nixon, Israel needed military assistance to maintain a balance of forces and thus achieve stability. The Arab countries were outraged at Nixon's declaration.

On 20 October, the Saudi government announced that in view of the increase of American military aid to Israel, the Kingdom of Saudi Arabia has decided to halt all oil exports to the United States for taking such a position. The Saudi


9. Al-Sowayegh. n.1, p.130.
action was not hastily taken. King Faisal tried all possible means of diplomatic communication with Washington. Even when news of the substantial American aid to Israel was announced, the King preferred to take a low-key position. At the same time, the Saudi government urged the United States:

> to change its present stand toward the waging of war between the Arab nations and Israel and stop its military assistance to Israel. If Saudi efforts to compel the US to take a neutral stand should not bring about, immediately, a sensible result, Saudi Arabia will halt its oil exports to America.  

A number of American observers warned of the serious nature of the Arab threat and advised a more even-handed policy towards the Arabs. James E. Akins, later to become American ambassador to Saudi Arabia, warned that the United States should pay heed to King Faisal's announced intention of refusing to increase oil exports. Unfortunately, American policy remained unchanged, and when war broke out, Saudi Arabia led the other Arab oil producing countries in an effort to Capitalize on the political impact of oil power. As Ruth S. Knowles wrote:

> Unfortunately, there were too few on the American political scene who recognized, even at this late date, the importance of improving US policy towards the Arab Countries in a more 'even-handed' direction. Nor did they read as carefully as the Arabs already had done the US energy reports, which were now pouring out, showing the magnitude of our future dependence on Arab oil.  

By 22 October, 1973 all Arab producers had followed the Saudi action and embargoed shipments to the United States. Some added Netherlands, Portugal, South Africa and Rhodesia to the list as well. The embargo was lifted back in March, 1974 five months after it was imposed.

The oil war was fought on three fronts:

i) First, Reduced oil production

ii) Secondly, embargoes, principally against the US and Netherlands and

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11. Ibid.
iii) Thirdly, steep rises in oil prices.

REDUCED OIL PRODUCTION

For the first time in Arab oil history the Arab States under the leadership of Saudi Arabia decided to use the 'oil weapon' on behalf of the Arab cause. Of the ten members of OAPEC (organization of Arab petroleum exporting countries), only Iraq refused to abide by the Kuwait decision. Iraq favoured nationalization of American and Dutch oil interests in line with its action of June, 1973. Saudi Arabia and the majority of OAPEC members believed that a gradual cutback in oil production would be more effective, for the following reasons:

1. Since the Arab armies were judged to be militarily strong, participants in the Kuwait meeting were encouraged to adopt a moderate plan of action.
2. The Saudi government still hoped to persuade the United States to modify its policy of active support for Israel, and keeping the boycott provision vague would avoid a 'point of no return' showdown with the United States.
3. Saudi Arabia thought of this strategy as an initial move which would give the Arabs enough flexibility to curtail production further if the need arose.
4. Because the war with Israel might continue for a long time, the gradual reduction approach was more expedient than an immediate embargo or nationalization, and would allow the Arab oil producers enough revenue to finance the military activities of the Arab States.
5. Such an approach would mean that the 'neutral' and 'friendly' countries would not suffer too much, since the oil weapon was intended to hurt only those countries which supported Israeli expansionist policies.

The initial 5 percent oil cutback led to a hardening of the terms by OAPEC members. The 5 percent cutback increased and, within a few days, reached 25 percent of the September production level.

THE OIL EMBARGO

In addition to the cutback in oil production, a second 'weapon' was used in the oil war. As discussed earlier, a

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12. on 17 October, 1973 OAPEC members met in Kuwait, and decided to cutback oil production and exports by 5 percent from September levels.
13. On this date Iraq nationalized American and Dutch interests in the Basra oil Company.
selective embargo was imposed upon countries which openly supported Israeli policy, with the United States at the top of the list. Other embargoed countries were the Netherlands, Portugal, South Africa and Rhodesia.

The embargo of October dramatically highlighted the vulnerability of the industrialized nations of the West. As the weeks passed however, the price dimension came increasingly into prominence, as economists warned of the consequences of a new oil structure for national economies and the international monetary system.14

THE PRICE EXPLOSION

The third and most serious consequence of the oil was the dramatic and unprecedented increase in the price of crude oil. On 16 October, 1973 all Arab Countries decided to raise crude oil prices by 70 percent. This decision was a direct consequence of a scheduled meeting between the oil companies and the Gulf producing countries to negotiate increased oil prices. Negotiations began in the second week of October, at which time the companies asked for a two-week recess to consult with major consumer governments. At this point, the OPEC Countries' demands were for a rise in posted prices of between 35 and 50 percent. Refusing the postponement, OPEC (Organization of Petroleum exporting Countries) scheduled a meeting for 16 October in Kuwait, and it was then that the decision to increase oil prices by 70 percent was taken.

This was the first time that the oil producing governments were able collectively to set their prices upon world markets. This unprecedented move successfully increased the price from $1.77 to $3.05 and later to $ 7.00 per barrel.15 Since the early 1970s, the producing nations had strongly advocated price hikes. Previously, OPEC price increases had never exceeded 35-50 percent; a 400 percent increase within a matter of months was totally unexpected.16

In this way, the oil producing countries were finally able to break the chains of servitude to the major oil companies. The companies had no choice but to accept the decisions of the oil producers and accede to the price

16. Ibid.
increases. The companies were reluctant, but they acquiesced because supplies fell far short of demand as a direct result of the Arab Oil cutback decisions of 17 October, 1973.

CONSPIRACY\textsuperscript{17} THEORY OF OIL CRISIS

The oil crises of 1973-74 was an important economic as well as political\textsuperscript{18} act that produced controversy after controversy since its initial outbreak. The arguments over the nature, cause, and consequence of such a crisis revised a great deal of debate during the last two decades.

The conspiracy theory of oil crisis is based on the idea that the US government, in collaboration with the international oil companies and OPEC, intentionally brought about the oil crisis of 1973-74. The focus of the above argument is on the differential impact of the fourfold increase of the oil prices on the US economy on the one hand and on the economies of Western Europe and Japan on the other hand. More explicitly, it is said that even though the US balance of payments was adversely affected by the sudden increase in the price of oil, the damage was negligible compared with what happened to the balance of payments of the West European and Japanese economies. Table 2.1 shows the balance of current accounts of the United States, Japan, and a number of West European countries, during the period of 1970-75.

\textsuperscript{17} Conspiracy theory of oil crisis is one of the approaches to explain the oil crisis of 1973-74. The other theories are the Traditional theory of the oil crisis and the Dependency theory of oil crisis. For details see cyrus Bina, The Economics of the Oil Crisis (London: The Merlin Press, 1985), p.1-10.

\textsuperscript{18} The embargo was supported by all OAPEC members with the exception of Iraq, which claimed that this form of action was not radical enough. Libya and Syria formally opposed its lifting (Iraq was not present), while Algeria made her consent to the lifting provisional for three months. The political goal of the embargo was to secure Israeli withdrawal from occupied Arab territories and to recognize the legitimate rights of the Palestinian people.
TABLE 2.1
CURRENT ACCOUNTS OF SELECTED COUNTRIES
(in billion of dollars)

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<tr>
<td>United Kingdom</td>
<td>1.5</td>
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<td>0.2</td>
<td>-3.1</td>
<td>-9.0</td>
<td>-6.5</td>
</tr>
<tr>
<td>France</td>
<td>-.2</td>
<td>5.0</td>
<td>.3</td>
<td>-.7</td>
<td>-7.5</td>
<td>-6.3</td>
</tr>
<tr>
<td>Germany</td>
<td>1.0</td>
<td>.9</td>
<td>1.0</td>
<td>4.5</td>
<td>9.0</td>
<td>6.0</td>
</tr>
<tr>
<td>Italy</td>
<td>.8</td>
<td>1.9</td>
<td>2.0</td>
<td>-2.4</td>
<td>-8.3</td>
<td>-5.8</td>
</tr>
<tr>
<td>Japan</td>
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<td>5.8</td>
<td>6.6</td>
<td>-.1</td>
<td>-4.8</td>
<td>0</td>
</tr>
<tr>
<td>Netherlands</td>
<td>-.5</td>
<td>-.2</td>
<td>1.0</td>
<td>1.8</td>
<td>1.5</td>
<td>-1.5</td>
</tr>
<tr>
<td>Belgium</td>
<td>.7</td>
<td>.8</td>
<td>1.4</td>
<td>1.4</td>
<td>.3</td>
<td>0</td>
</tr>
<tr>
<td>Denmark</td>
<td>-.5</td>
<td>-.5</td>
<td>-.1</td>
<td>-.5</td>
<td>-1.2</td>
<td>-1.2</td>
</tr>
<tr>
<td>United States</td>
<td>.4</td>
<td>-2.8</td>
<td>-8.4</td>
<td>.5</td>
<td>-3.3</td>
<td>-7.5</td>
</tr>
</tbody>
</table>

Source: Committee on Banking and Currency, House of Representa­
vatives, 93rd Congress, 2nd session, Balance of Payments Adjustment to Higher oil Prices: Manag­

The changes in the balance of current accounts of a selected number of West European countries Japan and the United states both for pre-embargo and post-embargo periods, are illustrated in Table 2.2.

TABLE 2.2
CHANGES IN THE BALANCE OF PAYMENT OF A SELECTED NUMBER OF INDUSTRIAL COUNTRIES BEFORE AND AFTER THE ARAB OIL EMBARGO
(in billions of dollars)

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom</td>
<td>-2.3</td>
<td>-3.3</td>
<td>-5.9</td>
<td>+2.5</td>
</tr>
<tr>
<td>France</td>
<td>-.2</td>
<td>-1.0</td>
<td>-6.8</td>
<td>+1.2</td>
</tr>
<tr>
<td>Italy</td>
<td>+0.1</td>
<td>-4.4</td>
<td>-5.9</td>
<td>+2.5</td>
</tr>
<tr>
<td>Denmark</td>
<td>+0.4</td>
<td>-0.4</td>
<td>-0.7</td>
<td>0</td>
</tr>
<tr>
<td>Sub Total</td>
<td>-2.0</td>
<td>-9.1</td>
<td>-19.3</td>
<td>6.2</td>
</tr>
<tr>
<td>Japan</td>
<td>+0.8</td>
<td>-6.7</td>
<td>-4.7</td>
<td>+4.8</td>
</tr>
<tr>
<td>Total (Japan and Western Europe)</td>
<td>-1.2</td>
<td>-17.8</td>
<td>-24.0</td>
<td>+11.0</td>
</tr>
<tr>
<td>United States</td>
<td>-6.6</td>
<td>+8.9</td>
<td>-3.8</td>
<td>-4.2</td>
</tr>
</tbody>
</table>

Source: Same as that of table 2.1.
West Germany is excluded from the analysis because of the fact that its balance of current accounts improved during the crisis. The countries selected are the United Kingdom, France, Italy, Denmark, Japan and the United States. During the period of 1971-72 as Table 2.2 shows, the total current accounts of the first five countries registered a $1.2 billion decline. For the same period, the United States balance of current accounts showed a $6.6 billion decline. During the period of 1972-73, the current accounts of the above selected countries of Western Europe and Japan together showed a $15.8 billion decline as opposed to an $8.9 billion gain by that of United States.

Meanwhile, the change in the balance of current accounts of the above European and Japanese economies during the period of 1973-74 showed a further decline to the level of -$24.0 billion, while the United States declined only to -$3.8 billion. These relative declines in the balance of current accounts of the countries selected for illustration is the basis for the conspiracy theorists argument that the US government must have initiated the process of the price hike in order to hurt the above mentioned countries.

In addition, it is often maintained that the major oil companies, with OPEC, deliberately increased prices and coordinated their action with the US government. Thus, the oil crisis of 1973-74 is seen to reflect the domination of the United States over the globe, a domination which since World War II was obtained by under-cutting such countries as the United Kingdom.19

This conspiracy theory of the oil crisis is mostly popular in West European economic and political circles. For instance, even prior to October 1973, before the initiation of the oil embargo, the London Economist of July 1973, while commenting on the OPEC negotiations of 1970-71 stated:

...the suspicion remains that the American State Department caved in too easily, though to ascribe this to simple blundering is not convincing either... one suspicion is that some concern from the higher level of politics affected the way the Americans acted... According to it, the Americans gave in to OPEC so readily because they saw in-

creased oil prices as a quick and easy way of slowing down the Japanese economy, whose exports were bothering America mightily at the time and which would be more hurt by rises in oil prices than any other nation.20

In the United States, this view produced a great deal of controversy in a variety of economic and energy conferences, forums, and conventions. A complete account of the conspiracy theory of the oil crisis was formally publicized in an article in the Washington Post of 10 July 1977.21 This article declared that:

It sounds off to American ears, but sceptical Europeans have been talking for years about the economic advantages and the increased political leverage that America may have gained from OPEC. In some quarters, there is even a suspicion that U.S. diplomats implicitly encouraged the OPEC nations to jack up their oil prices in order to enhance the American position in the world.22

The authors were perhaps conveying the content of a report given by Jack Anderson and Les Whitten, which was published a few days earlier in the same newspaper. Anderson and Whitten claimed that they 'now have evidence that Richard Nixon and Henry Kissinger could have prevented the Spectacular oil price increase that has dislocated the world economy and sent all prices spiraling.23

A characteristic of the conspiracy theory of the oil crisis is centered around the rivalry of the United States with the Europeans and Japanese economies in the context of trade and balance of payments. The sudden increase in the price of crude oil in 1973-74 was the result of the coordinated efforts of the US government with the major oil companies and the most accommodating members of the OPEC to increase the price of crude oil. Although the US became a


22. Ibid.

net importer, the effect of the price hike was certainly more pronounced in Japan and Europe, where almost all the oil consumed is imported oil.

Another feature of the conspiracy theory of the oil crisis is the political nature of price determination; the price hike is not due to the objective determinants of supply and demand, but rather is the result of a coordinated exercise of political will. The plausibility of this thesis rests on the assertion that great deal of harmony exists between the oil companies and OPEC and that the primary conflict in the world economy is between the United States, on the one hand, and Europe and Japan, on the other.

**PRICE OF OIL**

The Soaring price of oil had been a source of misunderstanding between Saudi Arabia and US. On this Saudi Arabia had been pressing other OPEC members hard ever since the embargo was lifted to lower the price of oil.24

Oppenheim's article 'Why oil prices go up? The past: we Pushed them'25 suggests other viewpoint. According to Oppenheim the US was entirely responsible for the oil price increases announced after 1971; OPEC had served simply as a 'tool of American mercantilism'; Washington's objectives had been three fold: to encourage the development of new sources of energy by imposing high prices for crude oil, to deliver a serious blow to its Japanese and European competitors, both heavily dependent on imported oil; and to stimulate American exports to the OPEC countries by increasing their buying power.26 However, the article goes on, not only were most of these objectives not attained, but the strategy amounted to 'a conscious decision to open the pandora's box of an OPEC challenge to the world economy... a betrayal of our alliances ...a cosmic blunder for which 'we are still paying the price'.27

To understand more clearly about the price increase let

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27. Ibid.
us go back to 1971, when the Tripoli and Tehran agreements were signed. For a while there was no more talk of price increases. Everything seemed settled for the next five years. In the US, the election campaign was in full swing. Senator George McGovern had won the Democratic nomination to stand against the outgoing President, Richard Nixon who was backed by the American oil companies and whose campaign was generously financed by the latter. Nixon was to show his gratitude after his re-election.

In April 1972, less than a year after the signing of the Tehran agreement, people in Washington began to talk openly about the need for an increase in oil prices. 'Those who want the industry to carry on supplying adequate sources of energy, but do not accept the need for the price increase which would enable the industry to commit the capital required to attain that goal, know nothing about economics', declared Stephen Wakefield, a Senior Interior Department official in charge of energy matters. 28

John Irwin, another important personality in the Nixon administration who had played a major role during the 1971 negotiations leading up to the Tehran agreement made an official declaration. Irwin announced that 'before the end of the 1970s, the Western countries as a whole were going to run into a serious energy crisis since supply was not going to keep up with demand'. 29

This declaration intrigued oil officials but did not cause them undue concern. Voices in the West could already be heard calling on the industrialized countries to conserve energy. But there was no widespread alarm; on the contrary. In 1972, it was estimated that the West Asian region would be able to produce 45 million barrels of crude a day in 1980 including 20 million provided by Saudi Arabia.

This worrying dichotomy between falling oil reserves and the open optimism of the forecasts illustrates clearly that this was a transition period in which few people had realized the importance of what was about to happen. As for US; they had already made their choice. The strategy conceived by the Nixon team as early as 1970-71 was pursued unchanged but with a wealth of precautions quite character-

28. Ibid.
istic of 'tricky Dicky'\textsuperscript{30} as the Americans referred to their President.

In the early 1971, the US National Petroleum Council (NPC), a joint body made up of top government officials and representatives of the oil companies was asked by the White House to draw up a series of policy studies and recommendations. The recommendation was published in late 1972. The NPC's recommendation was simple: oil prices would have to double by 1985, at constant prices, if oil exploration was to be encouraged. From then on, both the Nixon administration and the Companies strove to convince economic circles and public opinion that it was essential to increase oil prices substantially.

In January-February 1972, a few weeks after the publication of the NPC report, a serious shortage of crude oil, of refined products and of gas developed on the American east coast, which was particularly dependent on oil imports. The lack of fuel for heating forced the universities and the schools to close their doors and put back the new year term. Several industrial companies suspended operations. Three airlines - American Airlines, Trans World airlines (TWA) and Allegheny announced that they would no longer refuel in New York. Long queries appeared outside petrol stations, and 'No Gas' signs were commonly displayed. The Americans became obsessed with the shortage. The crisis was in fact entirely due to factors specific to the American oil industry, especially to America's increasing shortfall in refining capacity.

In the April 1973 issue of \textit{Foreign Affairs} Akins published an article entitled 'The Oil Crisis: This Time the Wolf is Here'.\textsuperscript{31} Akins warned his readers that:

\begin{quote}
To look simply at the world's oil reserves and conclude that they are sufficient to meet the world's needs can no longer be acceptable ... The oil crisis is a reality that compels urgent action.\textsuperscript{32}
\end{quote}

This 'urgent action should, according to the author

\textsuperscript{30} Richard Nixon's nickname in America.

\textsuperscript{31} James E Akins, "The Oil Crisis: This time the wolf is here" \textit{Foreign Affairs}, (New York), Vol. 51, no.3. April 1973, pp.462-490.

\textsuperscript{32} Ibid.
take two forms:

The first was direct: the consuming countries must unite in a common front, an alliance, to stand up to OPEC.

The second form of action proposed was far more indirect. It was to increase prices. However, only the producing countries could take such an initiative and indeed it was all to the good that the responsibility should fall to them. Akins was therefore content with making suggestions, planting ideas.

On 27 June 1973 Nixon appointed James Akins as Ambassador to Saudi Arabia. And as if that was not a sufficiently eloquent signal, Washington's new representative at the Wahhabi court felt it incumbent upon him to devote his first official declaration to the subject of oil prices and to announce that 'soaring demand and tight supply would boost world crude prices to $10 by 1980. 33 Akins went on to say that it was necessary to give the Saudis everything they want under a special relationship.

The finishing touch, which finally removed any anxieties the oil producers might have had, came when the US. National Security Council presided over by Henry Kissinger published a communique dated 26 September 1973 excluding all American military intervention in the Middle Eastern region in case of conflict. Meanwhile, the Americans rejected all initiatives relating to co-operation in oil affairs taken by their European allies within the OECD (organization for Economic co-operation and Development), be they secret or public. 34

William Simon, Senior economist felt that it was important to increase the price of oil in the US to encourage domestic hydrocarbon exploration and production, but he also thought OPEC prices had gone too high in January 1974 and should be brought down. In early summer 1974, Simon set out for Saudi Arabia and had little difficulty in convincing the Saudi officials that the prices fixed in December 1973 in Tehran did not reflect the real state of the market. Indeed, from his earlier declarations, it would seem that Yamani already shared this view. The Saudis therefore undertook to conduct a major crude oil auction in order to allow the true price to emerge.

No body had any doubt that given the depressed state of

33. Terzian, n.26, p.194.
34. Oppenheim, n.25, p.36-37.
the international oil market at the time the auction would lead to a drop in oil prices, since supply largely exceeded demand. Furthermore, Simon instructed his assistant, Jack Bennet, to warn the other OPEC countries against any attempt to cut production and thereby shore up prices just before Yamani announced the Saudi auction on 21 July 1974. The American Secretary to the Treasury himself openly supported the Saudi initiative and repeatedly praised Riyadh's 'gesture' during various press conferences and interviews.

The other OPEC countries soon grew anxious, fearing a collapse of oil prices. Barely three days after Yamani's declaration, five Gulf producers (Iran, Iraq, Kuwait, the United Arab Emirates and Qatar) organised urgent consultations. Following these meetings, the oil Minister of the United Arab Emirates, Mana Said al Oteiba, went to Riyadh and urged King Faisal to order the cancellation of the auction. Meanwhile, Iran threatened to support existing prices by a cut in production.

While the Ford administration gave sharp warning to oil-producing nations to cut prices, it drew angry responses from the Iranians and Kuwaitis. The Saudi oil minister stated in a conference in Washington that it was time to "stop these noises and start talking seriously about the problem." Indeed, in all seriousness, Minister Yamani called President Ford's 'Project Independence' a bid for cooperation rather than confrontation. Not content with these measures, king Faisal, in a most unusual gesture, wrote a personal letter to the Shah of Iran urging him to join Saudi Arabia in lowering the oil prices, but the Shah refused.

King Faisal was concerned that a worldwide depression might hurt the American and Western economy which would improve the relative position of the largely self-sufficient communist nations. He was well aware that the Western nations could best provide his kingdom with the technology needed for Saudi development and defense.

Saudi Arabia knew that it cannot benefit from economic chaos as a result of the energy crisis in the world. As Yamani said, "If there's a depression we'll never be safe-no matter how rich we are... We cannot industrialize if there is a sick economy in the world." 36


Saudi Arabia believed that oil producers and oil consumers were linked by a common interest and that oil producers can provide the energy to the industrialized nations with oil in return for the purchase of arms and goods available in the industrial world. What is sought here is an oil-for-arms and technology exchange. Saudi Arabia also looked towards the US for safe and productive uses of its vast supply of oil money. The leaders of the non-communist world on the other hand had been struggling against the impact of the soaring prices of oil, the Soviet Union had welcomed the oil price increase.

During this period, the Algerian Minister of Industry and Energy, Belaid Abdesselam, arrived in Riyadh bearing a message from President Boumedienne to Faisal. Boumedienne enjoyed tremendous prestige in Riyadh: his friendship with Faisal was an important factor throughout the period and he was to play a determining role on several occasions.

Faisal paid heed to the Algerian initiative: the beginnings of a compromise were sketched out as soon as Abdesselam arrived in Riyadh. The Algerian returned to Algiers and a few days later was joined there by Prince saud, King Faisal's son, who was Deputy Minister of Petroleum at that time. In early August, Saud and Abdesselam worked out a joint position. The terms of the agreement between their two countries were described by the Saudi daily Al-Medina, as follows:

Saudi Arabia agrees to withdraw its demand for a cut in prices on the understanding that prices will remain frozen at their present levels for a reasonable period of time until the market stabilizes.

A few days later, Riyadh announced that the auction had been cancelled. Akins told Oppenheim that he had urged Yamani to hold the auction as scheduled and even to raise the volume of crude oil put on the market in this way to 2 million barrels a day instead of the 500,000 barrels a day envisaged initially. Realizing that the Saudis were hesitating, Akins sought to intervene with Prince Fahd, Chairman of Saudi Arabia's High Council on oil, to ensure that the auction did take place; the US State Department prevented him taking any such steps. 'You are annoying the Secretary', he was told in a Washington telegram from Joseph

Sisco, Kissinger's right-hand man on Middle East affairs. Clearly, Kissinger was not interested in a cut in prices. What he had in mind was to make the most of the damage done to the European and Japanese economies, both substantially more dependent on imported oil than the United States, in order to bring the west back under the aegis of the US. At least, that was how the French government saw it at the time. 'The United States, relatively unaffected by the crisis, sought to draw the maximum advantage from the circumstances so as to re-establish its supremacy over the seriously hit European countries and Japan, wrote Michel Jobert in his Memoires d' avenir.

Indeed when Kissinger informed the French Minister of Foreign Affairs of his projected 'oil consumer's group', on 10 December 1973, Jobert replied that he could only agree to such a scheme if the producers, including United States, were also brought in. Washington paid no heed to this objection. In February 1974, in Washington, Jobert attended what he described as a 'conference conceived, announced and convoked as dealing with energy matters but which in fact had nothing to do with energy'. It's real purpose was to bring the European countries and Japan back within a certain overall conception of the Western world. Hence Paris' refusal to join the International Energy Agency (IEA) created in November 1974 and immediately perceived by OPEC as a threat to its existence.

However, as if to remove any ambiguity about the US position on oil prices, Washington announced in September 1974 that there was no US plan or programme to bring down OPEC oil prices. Kissinger, for his part, declared that in any case a price of $7 a barrel should be considered a minimum Floor price in order to protect exploration in the North Sea, Alaska and other difficult areas, and to pave the way for the replacement of oil by new sources of energy. Akins too offered reassurance. It was not the US intention to destroy OPEC, he declared in October 1974, and went on to warn the consumer countries that oil prices could go up as high as $42 a barrel by 1980 if world inflation was allowed.

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38. Oppenheim, n. 25, p.42.
40. Ibid.
41. Lowest Possible price.
to go on rising unchecked. 42

The remarkable thing throughout this extremely important period of oil history is that American diplomacy may not have been just two-faced, as had been said, but many-faced. There were those in Washington who foresaw an increase and those who wished for a cut in prices. Then there were those who made international declarations and threats which were effectively invitations to OPEC to act within precisely defined limits.

The Saudi oil Minister completely lost in the intricacies of Kissinger's strategy confessed his perplexity to the Wall Street Journal:

On the one hand the United States says that the price of oil is too high and that they cannot tolerate the present levels on the other they impose new taxes and new domestic measures geared to raise the price of crude on the domestic market. You are contradicting yourselves. We are completely willing to co-operate with the United States as soon as we discover what your policy really is. 43

Constantly forced to interpret the declarations of this one and that one, Yamani decided to burst the abscess himself and asked his main American interlocutor of the time, W. Simon, what was really going on. On 3 September 1975, he sent the American Secretary to the Treasury a 'strictly personal, letter in which he wrote:

I would like you to know that there are those amongst us who think that the US administration does not really object to an increase in oil prices. There are even those who think that you encourage it for obvious political reasons and that any official position taken to the contrary is merely to cover up this fact. Unless the US uses its influence with Iran (a country asking for an increase in oil prices) it can only lead to Saudi Arabia giving up its present position and joining its OPEC colleagues in their uncompromis-

42. According to Oppenheim, who quotes the 4 October 1974 issue of oil Daily. In support of Akins's case, it is worth noting that, give or take a dollar, prices for OPEC North African crudes reached this figure of $42 in 1980.

43. Terzian, n.26, p.199.
ing stand. 44

It is not known how Simon replied to Yamani but Ameri-
can journalist Jim Hoagland wrote in Washington Post that
the Saudi oil Minister was telling those close to him that
high level US officials, including Kissinger, who visited
Saudi Arabia, have never seriously discussed lowering prices
with him. After sometime, Yamani himself told the London
journal Events that 'The real interest of the US is in
higher oil prices. I do not recall that Kissinger even
raised the subject of oil prices with US although he talks
to us frequently. Their whole interest is in raising the
price of oil. This declaration was never contradicted by
the Americans, or was Hoagland's article in the Washington
Post. 45

US THREATS OF MILITARY INTERVENTION

Even since the October war of 1973, the Administrations
of Presidents Nixon, Ford and Carter repeatedly relied on a
policy of threatening military intervention against oil-
producing countries. 46 The intervention was envisaged under
six conditions. The conditions were:

1. Soviet attempts to take over oil fields or block key
   oil shipping lanes.
2. Oil embargo by the Organization of Arab Petroleum
   Exporting Countries (OAPEC).
3. 'Unacceptable' price increase or production shortfalls
   by OAPEC or OPEC.
4. The invasion of oil-producing states labelled as
   'friendly' by regional states perceived as 'radicals'.
5. The revolutionary overthrow of friendly regimes in the
   area which involves a high risk of interference with
   oil production or shipment.
6. Instances of 'massive violations of human rights' the
   rarely invoked 'humanitarian intervention'.

After lifting the oil embargo President Nixon made his
grand tour of the region which included visits to states
never before visited by an American President. The objec-

44. The existence of this letter was revealed by columnist
   Jack Anderson, in the Washington Post on 21 September
   1976.

45. Terzian, n.26, p.199.

46. Marwan R. Buheiry, U.S. Threats of Intervention Against
   Arab Oil: 1973-79 (Beirut, Institute for Palestine

52
tive was to consolidate the change in U.S. policy and the new relationship with the Arab world which his administration had painstakingly constructed. The other objective was a desperate attempt to elude Watergate and escape impeachment.

Following the lifting of the embargo, the threat of military intervention as an instrument of policy had been quietly shelved at least for a short while. And Nixon's tour, loudly proclaimed as a statesman's initiative, was wrong time and place for sabre-rattling. Nonetheless, the picture was to change with the denouement of Watergate, and the centre of gravity, with respect to the conduct of Near Eastern policy, returned to Washington with the newly installed Ford Administration.

In late September 1974, the recently installed Ford Administration launched a tough policy on oil prices. Believed to have been orchestrated by Kissinger himself, with public warnings before the U.N. (United Nations) and at the Detroit Energy Conference that "what has gone up by political decision can be reduced by political decision," the campaign aimed at attracting support from hesitant allies for a United front against OPEC. Since the embargo had been lifted back in March 1974, there remained only two issues:

1. the reduction of oil prices; and
2. the question of linkage between the price and availability of supplies and the resolution of Arab-Israeli conflict.

In a Washington Press Conference on 21 January President Ford was asked whether under such circumstances was it moral to take another nation's natural resources. While recognizing that the question was troublesome he nevertheless remarked:

It may not be right but I think if you go back over the history of mankind, wars have been fought over natural resources from time immemorial ..., history, in the years before us indicate quite clearly that was one of the reasons why nations fought one another.48


48. Buheiry, n.46, p.27.
The London Sunday Times published a report on 9 February. According to the report the National Security Council had completed a detailed review of a top-secret Department of Defence plan to invade Saudi Arabian oilfields in the event of another West Asian war resulting in a future Arab oil embargo. The report said that the plan code named Dhahran Option Four, had been drawn up by the Pentagon and provided for a US attack on the oilfield of Ghawar, which contains 40 percent of the world's known oil reserves. The attack would be led by nine airborne infantry battalions based in North Carolina which would be flown under escort to Dhahran in the Gulf by way of the Israeli air base at Hatserim. The infantry battalions would seize the oil field at Dhahran, evacuate US personnel and move in land to Ghawar after capturing landing jetties and storage tanks at Ras Tanura. They would be joined three days later by a Marine division of some 14,000 men who would be sent to the Gulf by Sea.

While the threats were real or illusory is of course a moot point. For their part the Arab oil producers stood their ground firmly. 'The era of using military force is gone' retorted Yamani, the risk involved could be too great and the danger of reducing the oil supply was very clear. American behaviour was widely seen by the Arabs as a new form of economic Imperialism.

There were some articulate voices in the United States who expressed reservations about intervention either on moral grounds or because of the serious risks involved. Frank Jungers, the Chairman of Saudi-owned Arabian American oil company (ARAMCO) said, "If any one were mad enough to commit such an act of folly, Aramco's production, a quarter of the world's oil exports, requiring the service of one-third of the world's tanker fleet would be out of commission for at least two years". Much of Saudi Arabia's oil equipment was unique gigantic and irreplaceable. On the floor of the American Senate there was some criticism in January 1975 of the Ford Administration's repeated statements regarding military intervention.

In a January, 1975 Gallup Poll showed only 10% of those interviewed supported military action in the Middle East. In April a Harris survey indicated that 58% of the Americans

49. News Week, 31 March, 1975, p.27. Quoted in Buheiry, n.46, p.34.

were opposed to the Seizure of Arab oilfields (while 25% approved). Furthermore, a study by Russett and Nincic concluded that, partly because of Vietnam, public opinion was much less favourably disposed towards the use of American military force that at any time since the beginning of the cold war.

A comprehensive study published in late 1978 by the Brookings institution provided a detailed analysis of the frequency of US military interventions during the thirty year period between 1946 and 1975. It bore the revealing title 'Force Without War: US Armed Forces as a Political Instrument' and was written by Barry Brechman and Stephan Kaplan. The project was supported by the Defence department's Advance Research Projects agency.

The study concluded that US threats to utilize the strategic nuclear arsenal was made 19 times notably during the Suez war of 1956, the intervention in Lebanon in 1958, the Cuban missile crisis of 1962 and the Arab-Israeli war of 1973. The overall implications of Force without war were clear: military intervention was perceived as a profitable enterprise which could be carried out at various levels of commitment, with a high once-a-month frequency if necessary, with a reasonable chance of achieving political objectives, and without leading to war.

President Carter issued a secret Presidential Directive PD 18 on 25 August 1977 calling for the preparation of an adequate strike force of several 'light Divisions' capable of rapid intervention in the West Asian region especially in the oil producing areas. Moreover, on 20 February 1978 Defence Secretary Brown fired the administration's first warning shot in the direction of Arab oil producers. In his address to the Los Angeles world Affairs Council he said 'the Gulf area is the world's greatest source of oil it cannot be separated from our security and that of NATO and our allies in Asia.'

The Camp David agreement was in progress during summer, 1978. During this time an astounding revolution of a new


type broke out against the Shah of Iran. The spectre of oil shortages was looming bigger. The disruption of Iran's oil supplies was seen as having a negative impact on the industrial allies of the US despite the rise in Saudi production aimed at covering the Iranian shortfall.

As far as military establishment is concerned, in 1979, there were several indications of dis-satisfaction with intervention scenarios and threats. It seemed as a possibility of touching off a super-power confrontation. According to one military correspondent, the Carter administration had explored all options and was virtually unanimous at top levels that military intervention was not only impossible for human and political reasons, but unworkable in a practical military sense.

**IMPACT OF OIL EMBARGO**

Saudi Arabia's primary means for advancing its national interest is its oil production. It relies on its oil revenues to diversify its economy, to build a broad industrial base, and to educate and train its nationals. Through its economic diversification and manpower training programmes the Kingdom hopes to transform itself from a semi-theocratic monarchy into a modern industrial state. The production of petroleum is by far the most important economic activity in Saudi Arabia. Some analyst have asserted that Saudi Arabia must produce at the highest possible level of output to meet the demands of its economic development plan as well as its international commitments. Lower revenues would force reductions in domestic spendings, leading to declines in Saudi standard of living which in turn would threaten the survival of the regime. Failure to meet its international obligations would threaten the kingdom's survival as a nation.

The 1973 oil embargo led to sharp increase in oil revenues which enabled the Saudi Arabian government to massive spending on economic development projects. Revenues rose even faster than expenditures. By the end of the decade, Saudi Arabia had amassed cash revenues of about $150


55. The goal Saudi Arabia is modernization not secularization.
billion. 56

On the other hand the oil crisis of 1973-74 dramatically altered the lens through which US leaders saw the Gulf. When the shortage was real, rather than potential the American economy paid a heavy toll, even if it was less costly than to Europe's. Gasoline shortage developed in some parts of US and there was a talk of energy crisis. As a result, US policy markers began to look at Saudi Arabia in terms of the security of the flow of oil. The successive Presidents in US form Nixon onwards formulated their energy programmes and policies to find out alternative sources of energy and to achieve energy self sufficiency.

CAUSES OF ENERGY CRISIS

There were five main causes for the energy crisis that broke out in October 1973.

First, the oil supply in the US had been controlled for a longtime by the Taxes Railroad Commission. In order to prevent the potential oversupply from depressing the prevailing price level, the commission introduced prorationing many years before. But it did not realize that new fields and proven reserves in the United States were declining while the demand for oil was increasing rapidly, mainly due to a rise in the per capita real income of the population after world war II and the emergence of the affluent society. As the income elasticity of demand for energy was found to be above unity, the demand for energy consumption grew faster in the United States and in order Western countries. 57 With two-car families, colour TVs, and all electric homes, the demand for energy mounted sharply in the 1960s. And the extent of the demand for gasoline can be seen in the fact that the total registered automobiles in the United States in the early 1970s were about 120 million for a population of 220 million or one automobile per 1.83 persons. 58

Second, the official projection about the rise of demand in the United States proved to be spectacularly


wrong. President Nixon's Task Force on oil imports reported in 1970 that the demand for oil in the United States would be around 18.5 m.b.d. in 1980 and that of this amount, only about 5 m.b.d. would need to be imported. But in 1973 alone actual imports of crude oil were over 6 m.b.d. Imports for the Eastern Hemisphere constituted 15 percent of total consumption in 1973, which were already around 17 m.b.d. Thus, the industry was not prepared for the upsurge in demand, and the domestic supply did not keep pace with the increase in energy consumption.

Third, while the demand for energy increased manifold and crude oil exports from OPEC increased, the supply of alternative sources stagnated. The environmental movement, began in the 1960s manifested itself in the 1970 Earth Day, in concern for industrial pollution, and in antigrowth sentiment that prevailed at that time, and it also prevented the increased use of coal in industries and utilities. At the same time, many projects for nuclear-power plants were shelved due to community resistance and some intractable technical problems as well.

But the situation had worsened in the case of natural gas. In the early 1950s, the price of natural gas was controlled in the interest of preventing the oligopoly profits and was kept almost at that same level in the ensuing years. With a relatively low price, the demand for natural gas increased tremendously while domestic gas production was levelled off because of the low incentive for exploration and production. The unsatisfied demand for gas was, of course, a real demand for energy. It was met only by oil—in fact, only by imported oil, which was cheaper than the domestic supplies.

Fourth, within five years, the demand for crude oil from Saudi Arabia and Iran had increased by 50 percent and 25 percent respectively, which began the dependence on OPEC countries. Even in 1979, OPEC supplied over 80 percent of total world export of petroleum in the free world. Oil consumption in the non-communist world increased from 10 m.b.d. in 1950 to 39 m.b.d. in 1970 to 67 m.b.d. by 1980. US oil consumption increased from 7 m.b.d. in 1950 to 15 m.b.d. in 1970 to 21 m.b.d. in 1980. Europe's consumption shot up from only 102 m.b.d. in 1950 to 12 m.b.d. in 1970 and reached 22 m.b.d. in 1980.


from 100,000 barrels daily in 1950 to 3.7 m.b.d. in 1970 and reached 9.6 m.b.d. in 1980.\textsuperscript{61}

As for supply, world production paralleled consumption. Western Hemisphere production more than doubled from 8 m.b.d. in 1950 to 18 m.b.d. in 1970; whereas Eastern Hemisphere production increased tenfold, from 2.1 m.b.d. in 1950 to 21 m.b.d. by 1970. After the 1967 six-day war in the Middle East, the Arab oil boycott lasted for a month. At that time, the United States had been importing less than a half m.b.d. from the Arab countries, relying on other sources to make up its total.

While the dependence on imported oil increased and naturally on imports from the OPEC Countries, it fell particularly hard on the two leading OPEC nations, Saudi Arabia and Iran who were always claiming for higher prices of crude oil when OAPEC under the leadership of Saudi Arabia, cut off oil supplies to the United States in October, 1973, this country became especially vulnerable and hard pressed to meet its oil needs.

Finally, the unnecessary and unsuccessful meddling of the US State Department only confounded the situation. As pointed out by Morris Adelman, it only aggravated the crisis and hardened the resolve of the OPEC nations.\textsuperscript{62} According to Adelman, the multinational oil companies, with the connivance the US States Department, has become the tax collecting agency of the OPEC governments. The State Department in order to maintain stable and predictable prices and a durable supply of crude oil, intervened unnecessarily with the OPEC governments and capitulated too easily to their demand for higher price increases. The State Department's representative at the time, James Akins, told a Senate Committee in February, 1972:

"The approach we made in the Persian Gulf was primarily because of the threats to cut off oil production... we informed the countries that we were disturbed by their threats, and these were withdrawn very shortly after our trip".\textsuperscript{63}

\textsuperscript{61} Ibid.

\textsuperscript{62} M.A. Adelman, "Is the oil shortage real? Oil Companies as OPEC tax collectors" \textit{Foreign Policy} (Washington), no.9 Winter 1972-73, pp.69-107.

\textsuperscript{63} Ibid, p.102.
In what a complacent world did the State Department officials live! They were vaguely aware that the balance of economic power had already shifted in favour of the Middle Eastern oil countries, and by the time they woke up to the reality, OPEC was firmly entrenched and calling the shots to the whole world. Thus, when OPEC quadrupled the price of crude oil in October, 1973 and fivefold within a year, and maintained an economic boycott against the United States and the West European Countries in addition, all the western nations suddenly became exposed and vulnerable to an economic cartel never before seen in the history of the world. OPEC's tactics caught everyone so off guard that gasoline rationing became a serious consideration in the United States and, in the Netherlands, bicycle riding became a potent alternative for mass transportation.

US ENERGY POLICY UNDER THE NIXON ADMINISTRATION

When the Arab oil embargo was imposed in October, 1973, the Nixon administration was caught unawares and without substantial reserves of oil. The long lines for gasoline and the doubling of gasoline prices at the retail level occurred almost instantly. As the crisis lingered on, President Nixon unveiled his scheme of Project Independence to make the United States self-sufficient in energy by 1980. But with the intensification of the watergate affair and the virtual paralysis of leadership in the White House, Project Independence did not have a chance to get off the ground and become a realistic blue print for energy solvency. According to Robert W. Rycroft it was a hastily constructed unrealistic programme that was doomed to failure from the moment it was promulgated.

The Nixon administration established a new department the Federal Energy Administration (FEA), in order to coordinate the domestic energy programme and formulate the national energy policy on a temporary basis. More specifically, the energy agency was created to operate federal fuel allocations, price controls, and oil import fee programmes, to take appropriate action when violations of these regulations were found; and to undertake detailed planning to cope with future emergencies involving major supply interruptions.

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such as had occurred in 1973-74. The FEA was supposed to last until 1976, but in that year the US Congress voted to extend its life further.66

One of the important things the FEA did under the leadership of John Sawhill, its chief administrator during 1974-75, was to publish a mammoth, 762 page report on Project Independence with a thirty volume supplement, which cost over $5 million to produce.67 Surprisingly, the report did not propose a specific set of actions; rather, it laid out the broad strategic options available to the United States for increasing the domestic energy supply, for conserving and managing energy demand, and for dealing with emergencies such as another oil embargo. The report did not point to a radical revision of policy but rent more weight to stronger federal energy conservation measures such as setting performance standards for automobiles, appliances, and heating and cooling of building.

The report made no specific recommendations, it only analyzed the alternative paths towards a diminishing US dependence on imported oil and their economic, environmental, social and foreign policy costs.

US ENERGY POLICY UNDER THE FORD ADMINISTRATION

President Ford had succeeded Nixon on 8 August, 1974.68 As a short term goal, President Ford announced in 1974 that he was committed to the task of decreasing US oil imports (7.4 m.b.d. at the end of 1974) by 1 m.b.d. by the end of 1975 and by 2 m.b.d. by 1978. To achieve this short-run objective of reducing oil imports, President Ford chose tariffs as his weapon. He declared that he would impose an initial $1 a barrel import free from 1 February, 1975, $2 barrel in June, 1975 and finally, $3 in the next stage, which be kept in abeyance as a prod toward action by the congress.69

The administration officials immediately calculated that tariffs of $2 a barrel on crude oil and 60 cents a barrels on petroleum products, in effect as of June, 1975, would cut imports by about 800,000 barrels a day, adding about 5 cents a gallon to the price at the pump and supply-

67. Ibid.
ing $18 billion of additional revenue to the government. A $3 tariff would reduce imports by over 1 m.b.d. and raise the cost to the motorist by a drive. The administration's objective in proposing the tariff was two fold:

First, it would reduce the US oil consumption and would be contributing one-third to the overall cutback of 3 m.b.d. that the then Secretary of State Henry Kissinger had suggested as the industrialized countries' goal; and second, it would put the US balance of payments into a surplus and strengthen the US leadership position in the West and its negotiating stance with OPEC.

The wrangling between President Ford and the Democratic Congress continued throughout his presidency, and it prevented him from formulating a national energy policy to cope with the energy crisis. 70

In his energy message to the congress in January, 1975, which was included in the State of the Union Address, President Ford made several proposals: the imposition of a $1 tariff on imported oil as of 1 February, 1975 and further taxes to drive up retail prices of petroleum products, thus discouraging public fuel consumption; plus a 'windfall-profits' tax on oil companies to prevent them from reaping excessive benefits from the removal of price controls which he intended to implement soon. His energy package also included development measures to increase domestic energy long-term fuel conservation incentives for homeowners and the building industry, and relaxation of pollution laws for the auto industry and the utilities to save fuel. It included plans for oil stockpiling, stand by authority for gasoline rationing in case of future oil embargoes, and special rules enabling utilities to increase rates to consumers to offset the higher costs of fuel for power plants.

In his energy programmes, President Ford scaled back significantly his predecessor's goal of complete US energy self-sufficiency by 1980. He declared that his target date was 1985, with the reducing oil imports to 3 to 5 m.b.d. The programme envisioned that in the next decade, the United States would open 250 coal mines and build 20 nuclear-power plants, 150 coal-fired electric generating plants, 30 oil refineries, and 20 plants to convert oil shale and coal to synthetic fuels. It called for drilling thousands of new oil and gas wells, mainly in Alaska and in offshore waters. The proposed energy-sowing requirements for building and

70. Ibid, p.165.
tax incentives for homeowners anticipated adding insulation to 18 million houses. The price tag for these huge construction efforts called for by President Ford would require investment of more than $400 billion.

President Ford believed that the best way to conserve fuel was to raise the price of all fuel by increasing the fees on imported oil and allowing the price of domestic oil to rise, the democrats in the congress contended that such steps would be disastrous for the economy and believed that consumption could be reduced without increasing the price of oil.

ENERGY POLICY PROJECT OF FORD FOUNDATION

The Energy Policy Project of the Ford Foundation made the first comprehensive attempt to specify the range of energy choices available to the United States. Its landmark study, A Time to choose, altered the entire energy debate by positing three alternative energy futures: "historical growth", "technical fix", and "Zero energy growth". 71

In the historical growth future energy demand was to rise at the average rate of the period between 1950 to 1970 (about 3.5 percent annually) while energy supply policy was to match this rapid increase in consumption. The technical fix future was to reduce demand (about 4 percent below historical growth) by improving efficiency in energy consumption activities. The most controversial option, zero energy growth, would include all the technical fix efficiency measures. Ultimately, energy demand growth would be reduced to zero, allowing the tremendous flexibility in the choice of supply sources.

Amory Lovins outlined and compared two courses that United States might follow over the next 50 years: the "hard" and "soft" paths. 72 For Lowins the hard path closely parallels historical growth. It emphasizes the rapid deployment of large, centralized technologies to increase supplies of all forms of energy and especially supplies of electricity. Energy demand growth modification receives very little attention in the hard path.

The soft path, on the other hand, combines technical fix responses with the deployment of soft, or "appropriate" technologies (e.g. technologies which are diverse, flexible, matched in scale and quality to end-use, and based on renewable sources of energy). The soft path would eventually lead to minimal, zero, or even negative energy demand growth.

ENERGY POLICY AND CONSERVATION ACT OF 1975

President Ford signed Energy Policy and Conservation act of 1975 on December 22, 1975. In this act, the Congress gave the President stand by authority to anticipate an energy shortage-presumably another Arab oil embargo by creating a strategic oil reserve. It also included a general formula for controlling domestic crude oil prices for forty more months; renewed authority to order utilities and other large consumers of oil and natural gas to convert to coal, the country's most abundant domestic fuel; emergency powers for oil sharing and rationing; mandatory auto-efficiency standards; mandatory appliance labeling to show energy use; and voluntary posting of energy efficiency standards for appliances and for the ten most energy-intensive industries.

All these proposals tinkered with the energy problems and attacked the situation haphazardly rather than formulating a comprehensive energy plan. But President Ford's idea of an Energy Independence Authority (EIA) never came close to passage by the Congress. Like Nixon's Project Independence, a $100 billion Energy Independence Authority was proposed by President Ford in October 1975. It was the brain child of the then Vice-President Rockefeller, who visualized it as the creation of another grandiose Tennessee Valley Authority, which would free them from energy dependence. The idea was that the EIA would channel private funds into the projects that were too risky for private enterprise.

The only significant step President Ford took without being hindered by the congress was the imposition of, first, a $1-a-barrel and, then a $2-a-barrel tariff on imported crude oil in order to decrease the demand for oil, which would also work as a conservation measure. But the tariff policy did not work. Foreign oil imports into the United States rose to record levels during 1977, according to an API report. Crude oil imports in the United States advanced from 5.28 m.b.d. on average on 1976, to 6.54 m.b.d. on
average in 1977.73

Yet, all the measures for cutting down the demand for oil and incentives for increasing supplies were urgently needed. The signs were ominous that the worldwide petroleum demand was surging ahead after the two slumps that had followed the 1973-74 quadrupling of oil prices. With demand rising, OPEC's oil output started starting to climb. For 1976, OPEC's oil production was up more than 13 percent from the depressed level a year earlier. Production continued to climb over 31 m.b.d. in 1977, even surpassing the average of 30.9 m.b.d. reached by OPEC producers just before the 1973 Arab Oil embargo.74

President Ford seemed helpless against the tide of more dependence of OPEC oil. All his efforts to decrease the imports of oil by 1 m.b.d. by 1975 and by 2 m.b.d. 1978 remained unfulfilled as did his cherished hope to lift all controls from oil and natural gas prices.

He chastised congress as a 'do-nothing' institution, ripped the pages of a calendar in front of public TV in order to prod the Congress to action, and barnstormed the country for an energy plan. No one can accuse President Ford of not trying. He was a victim of the time when the economy was recovering slowly and Congress was reluctant to stifle that growth. His gospel of free enterprise also did not endear him to the liberal congressmen. His only solace could be that he hammered about the urgency of the issue so much that when Jimmy Carter came to the Presidency in 1977, the new congress was almost ready for a comprehensive energy plan, however different it might be from the one submitted by President Ford a few months earlier.

**US ENERGY POLICY UNDER THE CARTER ADMINISTRATION**

Jimmy Carter came to the presidency with a promise to present a comprehensive energy plan and lessen the dependence on OPEC oil. "Our hope is to cut down oil imports drastically by 1985-10 million barrels per day less than the present projected use by that time", the President said later. And "if the American people, business, industry, private persons, as well, will join in an effort to cut down on the waste of oil, then that would be the major contributing factor toward balancing our trade with other countries".

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74. Ibid.
he declared. 75

In April 1977, President Carter publicly unveiled his energy plan with true populist rhetoric. He called the energy crisis the 'moral equivalent of war' to be won by hardship and perseverance. Submitted to Congress in April 1977, the National Energy Plan provided a convenient target for every vested interest in the country.

The principal aims of President Carter's energy plan were the reduction of petroleum consumption, conversion from oil and natural gas to coal, and increasing domestic supplies of energy. 76 There were five major sets of proposals in the President's plan:

1. pricing of crude oil
2. pricing of natural gas
3. conversion to coal
4. automobile-related proposals, and
5. tax credits for home insulation and solar-heating equipment.

The proposals were designed to reduce imports of crude oil from a potential 11.5 m.b.d. to 7.0 m.b.d. by 1982. Of these projected 4.5 m.b.d. saved, the administration estimated that approximately 2.1 million would be attributable to conservation and 2.4 to the substitution of coal for oil and natural gas.

The centerpiece of Carter's energy plan was the crude oil equalization tax (COET). Carter's COET, or well head tax, was flawed. It could not lessen the dependence on imported oil.

President Carter's National Energy Plan was mammoth, complex, and all-pervasive- as if to smother everyone by its sheer intricacies and with a vengeance for not having had an energy plan for such a long time. The plan could not solve the energy problem in the best possible way. President Carter, who received a mandate from the people to constitute a national energy plan and who had the opportunity to weaken OPEC's stronghold in the long run, presented a bureaucratic solution to the problem rather than a revolutionary one, which the country needed.

76. Ghosh, n.57, p.177.
US ENERGY POLICY UNDER THE REAGAN ADMINISTRATION


1. The Administration economic recovery programme, which reduced federal spending, taxes, and regulation, and
2. The administration's confidence that national energy decisions and policy were best made by the free market.77

The main thrust of President Reagan's energy policy focussed on increased production of domestic oil and natural gas.78 After being sworn in as the fortieth President of the United States, Ronald Reagan wanted to keep his campaign promise of freeing the oil industry from price controls and government regulations. To achieve that, he hastened to lift the price control on domestic crude started by President Carter and in March 1981 he terminated it by executive order.

The decontrol of crude oil prices had a strong impetus for oil and gas drilling. In the first half of 1981, more than 16,000 oil wells were successfully completed an increase of 41.2 percent from 1980 and almost double the comparable 1979 figure. According to Hughes Tool company, an average of 2,800 drilling rigs were operating each week during 1980, which was 29 percent more than in 1979 and which surpassed the all time record of 2,686 set in 1955.79

President Reagan's emphasis on the build up of Strategic Petroleum Reserve80 (SPR) for the energy emergency pre-


78. Ghosh, n.57, p.185.

79. Ibid.

80. The Strategic Petroleum Reserve is a government owned stock of crude oil that is available for release at the President's discretion in the event of a severe energy supply interruption or under the obligations of International agreement. In 1975, Congress authorised the establishment of the Strategic Petroleum Reserve in response to the oil supply disruption of 1973. The
paredness to respond to significant disruptions in oil supplies led to increase from 108 million barrels of oil in 1981 to more than 550 million barrels in 1988. Since 1988 the Administration's policy drew down the SPR early and in large volumes in response to a major supply disruption. In addition, the administration encouraged other members of the International Energy Agency to increase their emergency oil stocks. In 1988 government owned stocks held by the United States and other industrialised nations amounted to nearly 940 million barrels up from 280 million at the beginning of 1980.\textsuperscript{81}

During the 1986 tax reforms process, the administration worked with Congress to retain two tax incentives that were vitally important to domestic oil producers: the expensing of intangible drilling costs and the percentage depletion allowance. The administration proposed changes in the percentage depletion rules to help keep marginal wells producing and it prevented the permanent loss of thousands of stripper wells on Federal lands by extending plugging deadlines for non-producing wells. At the administration's urging Congress repealed the windfall profit tax, which had generated virtually no tax revenues since 1986 but was costing the oil and gas industry an estimated $100 million in reporting costs.\textsuperscript{82}

original legislation authorising the creation of the Strategic Petroleum Reserve and the US membership in the International Energy Agency was the Energy Policy and Conservation Act of 1975. As amended in 1990, the act authorises the Department of Energy (DOE) to store up 1 billion barrels of crude oil in the SPR. Its storage facilities is located along the Gulf coasts of Texas and Louisiana. By the end of 1990, the reserve contained 585.7 million barrels of crude oil stored in underground salt caverns at five sites along the coast of Texas and Louisiana. During 1974-90 the United States spent about $4 billion constructing five underground storage sites and related transportation facilities for moving and holding SPR oil. It has spent an additional $17 billion to fill partially the Strategic Petroleum Reserve with 592 million barrels of crude oil.


\textsuperscript{82} Ibid., p.xii.
The Reagan administration reaffirmed the need to foster nuclear power, within the mix and balance of energy systems, as part of the national energy policy. A principal objective was to create the political and institutional climate in which nuclear power could prosper. Passage of the landmark Nuclear waste act of 1982 offered hope that a programme for the long term management of the Nation's high-level radioactive wastes could be achieved. The administration also proposed the Nuclear Licensing Reform Act, designed to reduce the time required for nuclear plant licensing to seven years rather than twelve to fourteen years.

In addition, the administration hoped that licensing reform would promote improved safety in nuclear plants, encourage more effective public participation, and provide a stable and reliable licensing process. The department revamped its uranium enrichment programme to price the American product more competitively and recapture some of its lost world market.83 The Reagan administration's nuclear energy policy was dealt a severe blow when the Senate cut all funding for the Clinch river breeder reactor on 26 October 1983. The House had earlier repealed language authorizing the project.

Upon taking office, the Reagan administration determined that the Federal regulation imposed on the natural gas industry were encouraging inefficiencies in the production and use of natural gas. The administration established three policy objectives:

1. decontrol of all well head prices,
2. elimination of demand restraints and
3. mandatory transportation.

To increase competition within the natural gas industry the administration advocated two principles: Well head gas prices should be set by market forces not by government regulators or pipeline companies, and producers and consumers should be permitted to deal directly with each other rather than they have to rely on intermediaries.

In 1983 and again in 1986 and 1987, the administration proposed comprehensive natural gas reform legislation. A key feature of each proposal was the removal of all remaining controls on the price of natural gas at the well-head. Following partial decontrol of wellhead prices in 1985, the administration successfully resisted attempts to reimpose controls arguing that decontrol would lower gas prices.

The Federal Energy Regulatory Commission (FERC) in 1986 permitted natural gas producers to seek the highest ceiling price allowed for any old gas, regardless of vintage. The Department of Energy supported another change in the FERC rules designed to increase competition by providing buyers and sellers of gas with greater access to interstate pipeline transportation. In 1987, a major legislative goal of the Administration was achieved with the enactment of legislation removing end-use restrictions on natural gas.

US ENERGY POLICY UNDER THE BUSH ADMINISTRATION

On 20 February 1991, President George Bush presented the ʻNational Energy Strategyʼ to the Congress. The plan reflected his administration's commitment to the Nation an energy future that was secure, efficient and environmentally sound. 84

The objective of the National Energy Strategy as established by President Bush in July 1989 says:

achieving balance among our increasing need for energy at reasonable prices, our commitment to a safer, healthier environment, our determination to maintain an economy second to none, and all goal to reduce dependence by ourselves and our friends and allies on potentially unreliable energy suppliers. 85

The 214 page National Energy Strategy offered a programme of greater energy efficiency, alternative fuel usage and environmentally responsible development of all energy resources. Noting that the Nation's basic energy vulnerability involved oil, the strategy called for a broad array of actions to reduce the vulnerability. These included maintaining adequate energy reserves, increasing transportation


efficiency, increasing domestic petroleum production, and further deregulating natural gas.

Like its predecessor, the Bush Administration stressed that the Nation's energy security relied on a mixtures of energy sources, including coal, nuclear power, oil and natural gas, alternative fuels, renewables, and conservation.

The National Energy Strategy reflects the market forces philosophy of the Bush Administration in putting emphasis not on a greater role by government in guiding the selection of fuels, nor on taxation or other fiscal incentives guiding consumer's choice for more energy efficient products. The Bush administration placed most of its emphasis on the freeing up of the energy industry from regulatory constraints. The National Energy Strategy did not define an important role for the Federal government much beyond funding of oil recovery research, cleaner burning coal, and improved nuclear reactors and fusion. It also paid little attention to the need of expanding the role of the International Energy Agency.

THE ENERGY POLICY ACT OF 1992

In February 1992, Senator Johnston brought a revamped energy bill to the Senate floor. The bill sailed through the Senate by a vote of 94 to 4. The comprehensive bill contained measures reforming utility and natural gas regulations, streamlining the process for new nuclear power plants and encouraging oil and gas exploration along the Nation's coastlines. In a bill with something for nearly everyone, environmentalists won tougher energy-efficiency and alternative fuel provisions. Although the administration was disappointed by the escision of the Arctic National Wildlife Refuge provision, Admiral James D. Watkins, the then Secretary of Energy declared that the bill was as great step toward full implementation of the National Energy Strategy.

Major provisions of the Energy Policy act of 1992 included:

* Promoting energy efficiency through tax exemptions for energy conservation investments.
* Supporting nuclear power by reforming the nuclear power plant licensing process and encouraging the development

of advanced nuclear power plant designs.

* Establishing a government-owned corporation with a five member board to take over the Department's civilian uranium enrichment operation.

* Promoting mass transit and vanpools by increasing the tax free limit on employer provided benefits to $60 per month.

* Streamlining regulation of oil pipelines.

* Supporting the environmentally sound use of coal through research and development of advanced technologies.

* Providing alternative minimum tax relief worth over one billion dollars over five years for independent oil and gas producers.

* Removing obstacles to increased competition in electricity generation by amending the public utilities holding Company Act of 1935 and increasing transmission access.

* Promoting greater use of ethanol by extending tax exemptions for more ethanol blends.

* Promoting the development and use of clean burning alternative motor fuels by providing tax incentives for alternative fuel vehicles and refuelling facilities, establishing an alternative fuel fleet programme, setting up electric vehicle demonstration programmes and providing financial support for demonstrations of alternative fuel use by urban mass transit systems.

* Promoting greater use of clean burning natural gas industry with expanded market opportunities in areas such as electricity generation and natural gas vehicles.

* Encouraging increased research and development on a wide range of energy technologies including high efficiency heat engines and advanced oil recovery.

The Department of Energy decided to take the lead role in implementing these provisions.87

POST EMBARGO RELATIONSHIP

After lifting the embargo Saudi Arabia emerged as a major world oil power. The emergence of Saudi Arabia as a major oil power led to US strong desirability of seeking

87. Fehner and Holl, n.77, p.71-72.
'special relationship'. The post embargo relationship between Saudi Arabia and US represented highest stage of mutual co-operation in the fields of economic development, industrialization, Manpower education, Science and Technology and in agriculture.

CONCLUSION

After first world war, oil became an economic commodity of critical strategic importance. American strategists realised the importance of West Asian oil reserves after the war since the region contained the largest reserves of oil in the world. By the end of second World War the US oil companies had acquired a dominant strategic position in the balance of world oil industry.

Oil was for the first time used as a political instrument in 1973 when President Nixon asked the US Congress to approve $2.2 billion in emergency military aid to Israel. On 20 October the Saudi government announced to halt all oil exports to the United States for taking such a position. By 22 October 1973 all Arab producers had followed the Saudi action and embargoed shipments to the United States, Netherlands, Portugal, South Africa and Rhodesia. The embargo was lifted back in March 1974 five months after it was imposed. After the embargo was lifted Saudi Arabia emerged as a major oil power.

The oil embargo led to scarcity of oil and to energy crisis. The administrations of President Nixon, Ford and Carter relied on a policy of threatening military intervention against Saudi Arabia and other leading oil producing countries. But the public opinion and debates in US Congress went against military intervention. It seemed that military intervention could lead to super power confrontation.

To resolve the energy crisis President Nixon, Ford, Carter, Reagan and Bush unveiled their Project Independence, Energy Policy Project, National Energy Plan, National Energy Policy Plan and National Energy Strategy, respectively. These energy programmes were to find out the alternative sources of energy and to lessen the dependence on oil.

The post embargo relationship between Saudi Arabia and US represented highest stage of mutual co-operation in the fields of economic development, industrialization, Manpower, education, science and technology and in agriculture.