The October 1973 energy crisis.

Note: Although I have included background information as required to set my discussion in context, I would urge those readers who have not already done so to read Tammy Nemeth’s brief historical review on this discussion list, and the 2012 article by David Painter highlighted by her in the introduction to her contribution.

At the beginning of October 1973, Western consumers were complacent in their assumption that they would continue to have access to secure, stable and adequate supplies of cheap oil for the foreseeable future. By the end of the month, those assumptions had been shattered. In the course of a single month, or so it appeared, major changes had taken place in the world political economy. Ever since, October 1973 has been used to denote the turning point between the long boom of economic prosperity, based upon the Bretton Woods system, and the subsequent economic recession. Moreover, the world’s oil production, previously securely in the control of Western oil company majors, now apparently lay in the hands of the oil producing nations, many of them in the Middle East. Finally, the politics of that troubled region came to new prominence in world affairs, a prominence that it has not lost since. In retrospect, of course, there were indications of impending problems well before October 1973; nor were the worst prognostications of the contemporary doomsayers correct. Nonetheless, the impact of October 1973 undoubtedly justifies this anniversary discussion.

The energy crisis of October 1973 actually consisted of two distinct, albeit inter-related crises, one essentially economic, driven by the Organization of Petroleum Exporting Countries (OPEC); and a second, predominantly political, within the context of the Arab-Israeli conflict, shaped by the Organization of Arab Petroleum Exporting Countries (OAPEC). The comparatively low profile of the latter organization, both before and after the energy crisis of October 1973, misled many into referring to an ‘OPEC boycott’ when in fact it was an ‘OAPEC boycott’. This served to heighten Western concerns about the power and objectives of OPEC in the future. The energy crisis also coincided, or interacted, with a number of other crises and tensions within the world, including not only the Arab-Israeli conflict, but also the Cold War, relations within the newly-enlarged European Economic Community (EEC), relations between the EEC and the United States, the changing nature of the international oil industry, and the growing awareness of issues concerning development, leading to what is often referred to as the North-South dialogue. Domestic politics in a number of countries, including the United States, the United Kingdom, Japan and France were also affected. For reasons of space, these other elements will be discussed only briefly in this piece.
Before providing a detailed narrative of the energy crisis – or, rather, crises – themselves, it is important to provide some background to both the economic and the political dimensions of October 1973. The political crisis, which led to a policy of production cuts and selective embargoes agreed by the OAPEC, has to be set in the context of the prolonged Arab-Israeli conflict. Even before the creation of the state of Israel in May 1948, leading Arab spokesmen, amongst them King Abdul Aziz ibn Saud of Saudi Arabia, had expressed concern and opposition to the implementation of the Balfour Declaration, with its support for the creation of a National Home for the Jews in Palestine, accompanied by increased Jewish immigration into the previously Arab-dominated region. Conflict between the new Israeli state and its Arab neighbours continued, at times taking a military form, such as in 1948 itself, during the 1956 Suez crisis when Israeli troops launched an offensive against Egypt in collusion with the French and the British, and also in the brief, but highly significant Six Day War in June 1967. This war, which resulted in the humiliating defeat of the Arab front line states, and led to the Israeli occupation of substantial Arab territory, also saw the involvement of non-front line Arab states, including Saudi Arabia and Kuwait, which attempted to influence the outcome through the use of a selective boycott of oil to states believed to be friendly to Israel.

The boycott had little effect, not least because of the varying sentiments of the large Arab oil producers towards the implementation of the action. Nonetheless, there were some significant outcomes. First, it reinforced the significance of increasing oil production within the Middle East, and in particular in Arab states within the region, for international politics. For the front line states such as Egypt, the potential use of an ‘oil weapon’ became an important part of planning for any future war. At the same time, however, the oil producers themselves were concerned at the possible implications of discussions about the use of oil in the Arab-Israeli conflict resting with organizations such as the Arab League, in which the majority of members, not leading oil exporters themselves, had nothing to lose financially from advocating the punitive use of oil as part of the conflict. This was one of the reasons prompting the formation of the Organization of Arab Petroleum Exporting Countries in 1968. Closely modelled on OPEC, particularly in respect of economic policies, the OAPEC provided a forum in which only states which stood to lose by the use of the oil weapon would be entitled to take the decision on whether to employ it. For the Egyptian Government however, there remained a strong hope that the Arab producers, and in particular the Government of Saudi Arabia, with its strong links to the United States, might be persuaded to promise support in advance of any future conflict.

The second context necessary for an understanding of the energy crisis of October 1973 is economic. In the years after the Second World War, as demand for petroleum products rose rapidly,
the world oil industry constructed a petroleum order based upon an informal, company-operated system, supported indirectly by the parent governments (the United States and the United Kingdom in particular). This was based upon inter-company co-operation, dominance of the international oil market by the so-called ‘Seven Sisters’ and financial incentives to host governments to encourage rapid development of comparatively cheap oil supplies. In constructing and maintaining this system, the petroleum companies were assisted by the parent governments, which provided favourable tax regimes and, in the case of the United States, halted anti-trust investigations into the operations of what was known as the international oil cartel. The industry appeared a very orderly one, controlled by an elaborate network of marketing agreements, production agreements and inter-company deals. However, this apparently secure system was increasingly under threat, both from the growling complexities of the global oil industry, and also in the face of challenges from the host governments.

Host governments had become increasingly dissatisfied with the terms to which they had agreed in the initial concessions signed with the oil companies exploiting their resources. Usually negotiated at a time when even the existence of exploitable oil reserves was uncertain, the concessions were usually for vast areas, and long periods of time – fifty, seventy-five years, or even longer. The dissatisfaction grew as the oil companies rapidly emerged as the most profitable corporations in the world. However, it proved difficult to secure an improvement in the terms. In the case of both Mexico, in the interwar period, and Iran in 1951, attempts by a single government to challenge the authority of the oil companies resulted in punitive action, and an embargo of the nationalized oil. In the case of Iran, the Government eventually accepted the international oil majors back into the country, albeit on rather different, face-saving terms and with an end to the much-represented British Petroleum monopoly. The lesson from cases such as this was that the host governments should consider collective action themselves, to match the informal collective response of the oil majors. Initial discussions between the governments of Venezuela and Saudi Arabia, coupled with unilateral decisions on the part of oil companies to reduce prices, eventually resulted in the formation of the Organization of Petroleum Exporting Countries in September 1960. The initial members, Venezuela, Iran, Iraq, Saudi Arabia and Kuwait, were soon joined by others, including the United Arab Emirates, Ecuador, Indonesia, Nigeria, Algeria and Libya. However, the oil companies steadfastly refused to negotiate collectively with the new organization. It was not until the terms of trade changed, from a buyers’ market to a sellers’ market, with OPEC controlling much of the free world’s oil available for export, that the oil company majors acknowledged that they could no longer ignore that organization. The Teheran and Tripoli Agreements of 1971, with the main Persian Gulf producers and the main Mediterranean suppliers respectively, represented an
important turning point in the history of the oil industry and the strength of OPEC. Not only did the companies come together to negotiate collectively with groups of oil producers, but they also reached an agreement which was intended to last for five years, with an annual increase in the level of payments to host governments incorporated. Moreover, the oil companies also agreed that host governments were to obtain a percentage share, or participation, in the companies exploiting their resources. In 1972 agreement was reached that participation would start at 25 per cent, and rise to 52 per cent by 1982, with provision for compensation and company ‘buy back’ of government oil.5

It is important to bear in mind the diverse nature of governments comprising OPEC. Whilst many were from the Middle East, there were also representatives from Latin America, Africa and Asia. Some were Arab; but many were not, including one of the main Middle Eastern producers, Iran. Some were conservative monarchies, others more radical governments. OPEC was an intergovernmental organization, whose members worked together to improve the economic terms which they received in return for their oil resources. Whilst some of the issues on which they agreed had a political dimension, for example the principle of greater autonomy for host governments in the face of foreign oil companies, these were political issues upon which all could agree. Such was the willingness to subsume political differences in the face of shared economic objectives, throughout the Iran-Iraq War of 1980-88, representatives of both governments not only continued to attend the meetings, but even sat next to each other (as the respective delegations were seated in alphabetical order). It will be seen that many OPEC members were not Arab states, and had no reason to wish to support the Arab side in the Arab-Israeli conflict. Indeed, Iran supplied oil to Israel until the Iranian Revolution.

During 1973, it became apparent that events in both the Arab-Israeli conflict and the economics of the oil industry were beginning to change. In terms of the Arab-Israeli conflict, Egyptian President Sadat strengthened his relationship with King Feisal of Saudi Arabia, and secured from him a commitment to use the oil weapon if called upon. The King conveyed a warning to this effect to the Arabian American Oil Company (ARAMCO). Having been the subject of a pre-emptive attack in 1967, the front line states were keen to seize the initiative, and plans were made for an attack on Israel to coincide with the holy day of Yom Kippur in October. Following the abortive use of the oil weapon in 1967, the Arab oil producers willing to assist the Arab cause were aware of the importance, not only of imposing an effective embargo, but also of ensuring that it had a full effect, by at the same time reducing production. As there was very little spare capacity production in the free world, outside the states likely to impose the embargo, production cuts would reinforce the negative impact of the boycott.
Meanwhile, in the world oil industry, pressures were mounting for a re-negotiation of the Teheran and Tripoli Agreements. The original intention had been to increase regularly the income of the host governments, by building in an annual increase in prices of two and a half per cent. However, by 1973, as a consequence of the ending of the Bretton Woods economic system and the abandonment by the United States of the gold standard, global inflation was running at up to seven per cent per annum, and the dollar – the currency in which oil was valued – was depreciating. As a consequence, far from seeing a slow but steady increase in their revenue from oil, the host governments experienced a decline in the real price of oil, whilst the prices of goods that they bought abroad were escalating. The host governments therefore demanded new negotiations with the oil companies, which commenced in early October 1973. However, whilst the companies acknowledged the need to improve the financial terms, no agreement was possible between the two sides. In part this was as a consequence of the difficult position of, in particular, the American oil companies. In order to negotiate collectively, they required a waiver from anti-trust legislation by the United States Government. However, that implied, at least in part, that any agreement reached with the host governments would have to be acceptable to the US Government. Unable to find a figure that would satisfy both OPEC and the US Government, the companies adjourned the negotiations. OPEC therefore decided that the time had come to act unilaterally.

These two separate crises came to a head at approximately the same time. On 6 October 1973 Egypt and Syria launched an attack on Israeli troops on the Golan Heights and the Sinai Peninsula, in an attempt to recapture territory occupied by Israeli forces in 1967, thus beginning what has come to be called the Yom Kippur War. Two days later, discussions began between the Gulf states of OPEC and the oil companies, with a view to changing the Teheran Agreement. On 12 October, the oil companies, unable to reach an agreement that would be acceptable to all sides, requested an adjournment of the talks. Meanwhile, events in the Arab-Israeli conflict were escalating. By 10 October the Soviet Union had begun airlifting additional military supplies to the front-line Arab states. This fitted with the pre-existing close links between the Soviet Union and Egypt and Syria, but heightened the Cold War aspect of the conflict. In a fiercely-fought war, re-supply of arms and ammunition was a critical factor, and Israel looked to its main supplier and close ally, the United States, for military supplies. This became all the more important as it appeared that the military advantage was beginning to swing back to the Israelis, who had recaptured their pre-war position in Golan by 10 October. This placed the spotlight on the Richard Nixon Administration, which was in a precarious position domestically, as the Watergate revelations continued to grow. On 12 October, Richard Nixon was required to hand over seven secret tapes of his meetings in the Oval Office. Two days earlier, for non-Watergate reasons, Vice President Spiro Agnew had been forced to
resign. President Nixon could not afford to appear weak; moreover, foreign policy had traditionally been regarded as his metier. Faced with requests from Israel for re-armament, on 13 October these began, despite the clear warnings from the Government of Saudi Arabia in particular that this would be regarded as provocative. On 16 October King Feisal explicitly asked the United States to halt all shipments of oil to Israel.

Meanwhile, the OPEC members already in session for the discussions with the oil companies lost patience with the halted negotiations, and on 16 October, the Persian Gulf producers of OPEC – including Iran, a non-Arab state – decided to set a unilateral price for Persian Gulf oil at five dollars and twelve cents per barrel, up from three dollars and one cent. This action was taken in the context of on-going negotiations with the oil companies, and was not related to the simultaneous Arab-Israeli conflict. However, with the oil ministers of the main Persian Gulf producing countries already assembled in Kuwait, it facilitated the calling of a meeting of OAPEC oil ministers. On 17 October those ministers agreed on a programme of production cuts, starting at five per cent of the September 1973 figure, and increasing by a further five per cent per month until Israeli forces had been evacuated from all the territories occupied in the June 1967 war, and the rights of the Palestinians had been restored. Saudi Arabia, Kuwait, Libya, Algeria, Egypt, Syria, the United Arab Emirates, Bahrain and Qatar all agreed with the policy: Iraq, although a member of OAPEC, chose instead to nationalize the American and Dutch holdings in the Basra Petroleum Company. OAPEC also announced a boycott of the United States on 20 October, later extended to the Netherlands and Portugal. Meanwhile, in Washington DC the ambassadors of the leading Arab states asked President Nixon to intervene in helping to mediate an end to the conflict. However, as outlined in an earlier contribution to this discussion by Jay Hakes, and discussed in more detail below, the Nixon Administration had consistently assumed that any risks of a boycott were minimal.

The United States Government was determined not to give the impression that its Middle Eastern policy was in any way directed by the oil embargo, and on 19 October 1973, two days after the announcement of the boycott, the United States reinforced its support for Israel, when President Nixon asked Congress for over two billion dollars in additional aid for Israel. Prior to the ceasefire, the United States continued to re-supply Israel, and Secretary of State Kissinger was publicly contemptuous of what he saw as European surrender to the oil boycott. Yet Kissinger’s shuttle diplomacy, both during the crisis and in its aftermath, as he sought to broker first a ceasefire, then a disengagement and a more lasting peace, was both more even-handed in its dealings with the respective belligerents than the Israeli Prime Minister, Golda Meir, expected, and was also a startling departure from normal practice, in the ‘hands-on’ approach adopted by the Secretary of
State, entailing his spending long periods of time out of the United States. Indeed, it could be argued that OAPEC had good reason to consider that their policy had been successful, for the United States pushed through a ceasefire in a matter of days, on the basis of a cessation of hostilities in place, at a time when Israel appeared to be encircling Egyptian forces.\textsuperscript{10} However, at the same time as trying to broker peace, in December 1973 President Nixon wrote to King Faisal of Saudi Arabia, suggesting that the oil embargo and production restrictions were more likely to persuade the United States to withdraw from its role in the Middle East than persuade it to pursue peace, whilst on 7 January 1974 Defence Secretary Schlesinger appeared to threaten retaliatory action against the countries implementing the boycott, including, implicitly, the use of force.\textsuperscript{11}

This reinforced the point that, even after the cessation of hostilities in the Yom Kippur War, the energy crisis continued. OAPEC was concerned, not only with the current conflict, but also the position of the territories occupied by Israel after the 1967 war. Although the Arab-Israeli war was halted fairly rapidly, with a ceasefire, pressed for by both the US and the Soviet Union, and supervised by the United Nations, in place as early as 25 October 1973, the use of the oil weapon continued in an effort to influence the subsequent negotiations for peace. Indeed, it was actually intensified. On 4 November, OAPEC decided to extend its programme of production cuts, designed to reinforce the impact of the boycott, announcing that supplies to the West would be reduced in November by twenty-five per cent of September production, with a further five per cent planned for December. These cutbacks meant that in November the OAPEC states reduced their production by 4.5mbd compared to September, although increases in production by other non-Arab OPEC members brought the reduction to only 4.2mbd. Nonetheless, this still represented the equivalent of thirteen per cent of OPEC’s September production.\textsuperscript{12} As a consequence, there was a cut in the oil available on the world oil market, from 33 million barrels per day (mbd) in September 1973 to 28.8 mbd in November 1973.\textsuperscript{13} This sparked concerns amongst the consumers of all Western countries, including those treated as friendly to the Arab cause, and as a consequence demand rose, both on the level of the individual consumers, whose determination to keep cars full of gasoline led to long queues at service stations, and also governments and companies, which sought to build up supplies in case of future supply cuts. A sense of panic was enhanced as governments took precautionary steps in case of shortages in supplies, including reductions in the speed limit (in the US), preparations for rationing if needed, and calls for consumers individually to reduce their oil usage. As a consequence, the market price for crude oil rose well above the level set unilaterally by OPEC in October, and host governments were offered bids for their participation crude far higher than the official price, even as high as twenty dollars a barrel for crude from the Mediterranean producers. At an OPEC meeting in December, it was decided to capitalise upon this unexpected consequence of
market pressures, and a new price of $11.65 was set.\textsuperscript{14} It should be noted that this was an economic decision, spurred by the consequences of the embargo and production cuts, but not motivated by it. One of the strongest advocates of a higher price was the Shah of Iran, whilst Saudi Arabia, a leading supporter of the boycott, had reservations and opposed calls for an even higher price.

Meanwhile, the nature of the boycott was refined to encourage consumer governments to adopt a more pro-Arab position. The most favoured countries were promised as much oil as they required (this included the United Kingdom, France, Spain and many developing countries); preferred countries which had modified their policies in support of the Arab cause including (after January 1974) Belgium and Japan, would receive supplies at the same level as in September; neutral countries’ supplies would be cut in accordance with the general level of production cuts, and hostile countries, which in addition to the US and the Netherlands, included Portugal, South Africa and Rhodesia, faced a total embargo from the member states of OAPEC.\textsuperscript{15} Although the embargo was lifted temporarily in March 1974, and then permanently over the summer, without having met its stated objectives, the nature and extent of the embargo had a marked effect upon the consuming nations. In the last three months of 1973, therefore, the consumer governments faced an immediate crisis on two fronts; in economic terms, a sharp escalation in oil prices at a time of existing economic difficulties, accompanied by pressure upon availability; in political terms, a demand from Arab oil producers for a clear indication of support for their position, with particular reference to the provision of military supplies to Israel.

It might be expected that both companies and the consuming governments would have made preparations in anticipation of either an economic demarche by the OPEC members to impose higher prices, or a political attempt to use the Arab oil weapon in the longstanding dispute with Israel – given that concerns had been expressed about such possible action. However, very little was in place in terms of forward planning. In part, this was because of the speed of events, as the Teheran and Tripoli Agreements were originally intended to last for at least five years, but were rapidly overtaken by events. However, in addition there was reluctance, particularly on the part of the consumer governments, to acknowledge the scale and immediacy of the problem, even though the dependence of the West on OPEC oil, and their vulnerability to any interruption in supply, was escalating. In the case of the United States, although for much of the twentieth century it had been the world’s largest oil producer, it was also the largest oil consumer. From 1948 onwards it relied on oil imports for some of its consumption, and by October 1973 it was importing over a third of its oil requirements, with over ten per cent of American oil consumption coming from the Eastern Hemisphere. Whereas just before the Second World War the United States had produced 62 per
cent of the world’s oil, by 1972 that figure was down to 21 per cent. Other industrialized nations were even more dependent: Japan imported virtually all of its petroleum. In 1955 coal had accounted for three quarters of West Europe’s energy usage, and as a consequence 78 per cent of its energy was supplied from within West Europe: by 1972 less than a quarter of its energy came from coal, and as a result it relied on imports for 65 per cent of its energy in 1972. The United Kingdom was rather better placed than the rest of West Europe, reliant on imports for only ten per cent of its energy, but that had a political cost, in terms of reliance upon the domestic coal industry. Moreover, European dependence on imported oil was heavily tied to the Arab oil producers. In 1972 the European Community relied on Saudi Arabia for 23 per cent of its oil imports, and Kuwait and Libya both contributed fourteen per cent.

Concerns had been expressed publicly about the vulnerability of the West to the political use of oil. In an article published in the prestigious *Foreign Affairs*, James Akins, the oil expert of the State Department and later U.S. Ambassador to Saudi Arabia, explicitly addressed the possibility of an oil boycott, and concluded that it could have very severe consequences for the United States. However, the ineffectiveness of the 1967 boycott left a legacy of complacency. No coherent policy had been devised by any of the Western industrialized consumers, either singly or collectively, to deal with a possible politically-motivated interruption to supplies: the United States because it believed that its relatively small reliance on Arab oil could be replaced, for example from Venezuela; the Europeans because they assumed that any politically-motivated boycott was likely to be directed mainly towards the United States. Although there had been some half-hearted planning for a possible petroleum crisis, there were few concrete consequences. The Nixon Administration had set up a Task Force in 1970 to consider energy issues, but it did not anticipate the scale of America’s rising dependence on imports, and its main recommendations were not implemented anyway. In May 1972 the United States had suggested that the Organization of Economic Cooperation and Development (OECD) might consider creating an international organization to coordinate the policies of the main consumers in the event of any restrictions on supplies, but there was little support for the idea, not least because the United States proposed confining any pooling arrangement to water-borne supplies, thus excluding the United States’ own production and any imports from Canada. The European Community had also considered the possibility of a collective energy policy, but the wide differences between member states precluded any substantial sharing of energy policy, although in October 1972 it was agreed that members should keep oil stocks equivalent to 90 days’ usage, and by October 1973 reserves roughly equivalent to 70 days were in place.
Despite this lack of clear collective action, there had been some indications that politicians in the consuming countries had begun to recognize their vulnerability as reliance upon Arab oil grew. Prime Minister Edward Heath of the United Kingdom had expressed concerns as early as 1971 that Arab states would cut off oil supplies to the West in the event of a further Arab-Israeli war. In June 1973 American Secretary of State William Rogers also warned that ‘there is no doubt that King Faisal is becoming increasingly restive, and the danger of pressure on our oil needs cannot be ruled out in the longer run.’ Nonetheless, despite these expressions of concern, and indeed direct warnings, the extent of the October 1973 oil crisis came as a considerable surprise to the consuming countries, including the parent governments. As late as 17 October 1973 – the day that the boycott was announced – Secretary of State Henry Kissinger told the Washington Special Action Group meeting that he did not expect an oil boycott, following a very positive meeting between himself, President Nixon, and the foreign ministers of four Arab states.

The oil companies, meanwhile, found themselves in an invidious position. They were aware of the potential for politically-motivated interruptions in oil supplies. Oil company officials, particularly from Aramco, conveyed to the United States Government in particular the concern expressed by the Saudi Government at American policy towards Israel, and those warnings increased in tempo and severity in the lead-up to the October war. According to the Company’s official historian, Shell had also tried to warn heads of government that the West was vulnerable to any disruption in Middle Eastern oil supplies, and had begun to urge that a system be put in place to share supplies in such a case; however, no such system was forthcoming. Once the boycott was in place, the companies felt compelled to implement the policies invoked by the host governments. Officially decisions on production levels from individual oil fields and countries rested with the oil companies, but it is a measure of the extent to which the balance of power had shifted towards the producer governments that the companies were prepared to co-operate and implement the production cutbacks and abide by the strict letter of the boycott, not least because of threats of sanctions should they fail to comply. Indeed, one of the striking aspects of the crisis is that the participating governments relied upon the oil companies to implement the boycott on their behalf. Not only did the companies cut back production as requested, in the case of the Arabian American Oil Company (Aramco), it informed the Saudi Government of the destinations of all tankers, and even complied with a request for information of Aramco’s crude oil supplies to U.S. military bases throughout the world. However, whilst the producing governments were demanding that they should impose the boycott and cuts in supply determined by OAPEC, individual consuming countries were also seeking to influence company policy, although their demands differed according to their particular designation as most favoured, preferred, neutral or hostile.
The companies were however comparatively well prepared to deal with the repercussions of the oil boycott, at least in terms of handling shortages. The oil majors in particular were used to working together to manage production; they had also had experience of managing the effects of the Iranian nationalization (although the missing Iranian oil was covered by increased production from Saudi Arabia and Kuwait), the impact of the closure of the Suez Canal in 1956 and the various upheavals to supplies in 1967. For the sake of their continued relationships with the host governments, they could not be seen to be flouting the terms of the OAPEC policy, yet at the same time they were castigated by the consumer governments, and in particular the parent governments, for not meeting their own (often widely differing) needs and requests. In the event, the companies managed both to heed the letter of the OAPEC boycott and production cutbacks, whilst also re-allocating supplies so that some of the shortfall experienced by the ‘hostile’ nations was met from non-OAPEC sources. Thus, for example, Aramco ceased to load any tankers destined for the United States in Saudi ports, and ESSO cut its supplies of heating oil to U.S. military forces in Europe.32 Although there was an overall shortfall in supplies, despite the willingness of some non-OAPEC members to increase production, the companies agreed on a policy of ‘equal misery’, sharing the shortfall between all consumers. The decision was taken not to use the OECD Oil Committee, or to re-activate the Petroleum Industry Emergency Group, which had been effective in 1956. In many ways this was understandable, since it avoided signalling to the Arab producers that the oil companies were seeking to undermine the spirit of their action, whilst paying strict heed to its letter. However, one problem about the understated way in which the companies set about sharing out the shortfalls is that, in the absence of fact, rumour and exaggeration abounded.33 Indeed, many commentators pointed to the fact that many companies benefitted financially from the crisis, as their stocks of oil increased in price: as a consequence, they reported exceptional profits in early 1974, with the American majors registering an increase in their net profits of over 68 per cent for the first half of 1974, compared with the previous year.34

Parent governments, it might be thought, were in a particularly strong position to influence oil companies based in their jurisdictions, since they had offered diplomatic and financial support to their respective majors for many years, and had developed links with oil company representatives, both at home and abroad. The two main parent governments, the United States and the United Kingdom, were in very different positions throughout the crisis. The United States was subject to a complete boycott: this continued throughout the ceasefire and mediation attempts led by Secretary of State Henry Kissinger, with a temporary lifting of its conditions in March 1974, following the negotiation of the Egyptian/Israeli disengagement agreement under American auspices, before being finally terminated in June and July 1974. The potential impact of this boycott should not be
taken lightly. Prior to October 1973 the United States had been importing 1.2mbd of Arab oil, and five months later that had fallen to just 18,000 barrels per day.\textsuperscript{35} The United Kingdom, on the other hand, was afforded a more favourable status; with the heavy British dependence on imported oil, taken together with the simultaneous conflict between the British Government and the National Union of Miners, it was politically important for the British to receive the preferential treatment that they had been promised by the host governments.

The British Government had tended to take a pro-Arab line in its foreign policy, and this was reflected in a rapid decision to ban arms supplies to both sides in the conflict, although it was suggested at the time that, given the pattern of arms sales prior to October 1973, this apparently even-handed response was, in effect, equivalent to favouring the Arab side.\textsuperscript{36} James Prior, Leader of the House of Commons and regarded by the United States as an informal channel to Edward Heath, made it clear at a very early stage that the British Government wanted assurances that U.S. bases in the United Kingdom were not being used for re-supply.\textsuperscript{37} The United Kingdom was awarded a preferential status in the Arab oil boycott, and, as the parent government of two leading majors, British Petroleum and Shell, and indeed a major shareholder in the former, the British Government could perhaps be forgiven for assuming that it would be in an advantageous position when it came to receiving petroleum. This, however, proved not to be the case: although based in the United Kingdom, both companies had world-wide interests and many concerned customers. The two companies were adamant in their refusal to give favourable treatment to the United Kingdom, since this was counter to their own strategy, which was to share the costs of production cuts equally amongst their customers (although it has recently been revealed that British Petroleum did prove more flexible in private\textsuperscript{38}). The position had now been reversed: rather than wishing to court parent governments in order to win diplomatic backing, the companies were anxious not to alienate the producer governments.\textsuperscript{39} Relationships between the British Government and the two oil majors remained strained, with issues such as the imposition of oil sanctions on Rhodesia causing difficulties.

In the case of the United States, the situation was a more complex one. In terms of oil supply, it was far less dependent upon Arab oil than many of its allies, and had a substantial, if inadequate, domestic production upon which to draw. Within the Western Hemisphere there were two other large oil producers (both exporters), Venezuela and Canada. In addition, the United States was home to five of the seven sisters. Nonetheless, it was subject to a total boycott, and inevitably there was a shortfall in imports. News of the boycott soon triggered alarm, in part because of President Nixon’s announcement that supplies might be expected to fall by anything up to
seventeen per cent. The Administration also introduced energy-saving measures as a matter of urgency. The first major programme to address American dependence on imported oil came a month after the October crisis began, when on 7 November 1973 President Nixon introduced what he called ‘Project Independence’, aimed at encouraging conservation and the use of alternative sources of energy, to make the United States self-sufficient in energy by the end of the decade. His proposals included a number of obligatory measures to cut consumption, such as speed restriction on roads and reductions in air flights, as well as the encouragement of voluntary conservation. On 16 November 1973 the controversial Alaskan Pipeline bill became law. Despite this, drivers queuing for gasoline were as likely to feel that the federal government, as well as the oil companies, were to blame for the crisis. The oil boycott had demonstrated to the American public, and indeed to Congress, that there was a problem in reconciling the growing demand for oil at cheap prices with increased conservation concerns and policies intended to push up prices in the producing countries. For a beleaguered President Nixon, the domestic impact of a prolonged boycott was serious, and it is clear from Kissinger’s memoirs that, even if during the immediate crisis the first priority was the Cold War dimension of the Arab-Israeli conflict, in the aftermath the question of oil supplies for the American domestic market was accorded a high priority by the President.

The American Government’s relationship with the American oil companies during the crisis was a mixed one. Public opinion was increasingly critical of the oil companies, exacerbated by gasoline shortages, increasing prices and mounting oil company profits. Senator Jackson accused the companies of disloyalty for obeying the embargo of Saudi Arabian oil, even on deliveries to the U.S. Navy. Yet, against that, not only were the oil companies a substantial part of the American economy, their co-operation was needed, not only to supply the domestic oil market in the face of the Arab embargo, but also to supply American military bases and other countries facing problems with deliveries, notably Israel and the Netherlands. The Administration kept in contact with oil company representatives during the crisis. Even before the declaration of the boycott, company executives asked for a meeting with the State Department, at which they stressed the vulnerable position of the oil companies in Arab countries. Company-government contact continued during the period after the boycott, and it is clear that the Administration was deeply concerned about the possible impact of the embargo, and keen to persuade the producers, and particularly the Saudis, that the Americans would try to resolve the crisis: in return, Secretary of State Kissinger urged the oil companies to ‘tell your Arab friends that we are serious about trying to achieve a peace settlement but that they have to make an effort to move from there to here’. The companies made no secret of their desire to influence American foreign policy, and the crisis signalled clearly that the post-war petroleum order, which had allowed the United States simultaneously to benefit from the riches of
Arab oil whilst also pursuing a policy of aid to Israel, through the auspices of the oil companies, had now gone.

In terms of international relations, the impact of the October 1973 energy crisis was greatly increased as a result of its impact on other significant elements in world affairs. The interlinking with the Arab-Israeli conflict has already been noted, but in addition that in turn precipitated American-Soviet tensions, including, at one point, the placing of US forces world-wide on a high state of nuclear alert. Moreover, Secretary of State Kissinger’s interpretation of European policy as a consequence of the energy crisis exacerbated trans-Atlantic tensions. Those relations were already strained as a consequence of Kissinger’s so-called ‘Year of Europe’ initiative, in which he sought to provoke European governments in to providing more of the defence costs for Western Europe, whilst simultaneously acknowledging American primacy when it came to global policy. When the Secretary of State castigated European Governments for, as he saw it, neglecting Cold War priorities in an unseemly scramble for oil, this was not well received by governments which, in turn, felt that the United States made too little allowance for Europe’s heavy reliance on Middle Eastern oil. They also resented the lack of consultation on the part of the United States, and the lack of understanding that European views on the Arab-Israeli conflict might not necessarily mirror those of the Nixon Administration. Henry Kissinger was particularly concerned at the decision by the EEC in November 1973 to agree to a joint resolution on the Middle East, which called upon Israel to implement Resolution 242 in respect of the occupied territories. Although eventually relations were patched up (with the exception of France, which remained opposed to American leadership in the crisis) with the Washington Energy Conference in February 1974, and the creation of the International Energy Agency in November that year, there was little support for American policy in the immediate aftermath of the energy crisis. The crisis also prompted intra-European discussion on energy policy; attempts to reach a common ground within the European Economic Community of nine members had some success, particularly in pursuing collective discussions with the Arab nations, but also caused rifts. The Netherlands, classified as a hostile state and subject to total embargo, did not look kindly on fellow EEC members’ efforts to distance themselves from the Dutch plight, and refuse any form of pooling arrangements that might threaten the favourable position awarded to France and the United Kingdom. The British, meanwhile, resisted any calls for a common energy policy that might undermine their unilateral control of their North Sea oil resources. More widely, the Japanese Government adopted a pro-Arab line, thus ending nearly thirty years of adherence to American foreign policy goals and policies.
In the aftermath of the crisis, the consuming governments became more involved in the conduct of the oil industry; whilst the Continental Europeans and the Japanese had always been somewhat wary of the Anglo-Saxon majors, the two main parent governments also sought thereafter to provide more structure and government control, instead of relying upon a company-organized and company-led informal petroleum order. The International Energy Agency (IEA), discussed at the Washington Energy Conference in February 1974, and in place as part of the OECD by November of the same year, was meant to be an important part of the new order. The IEA was very much the inspiration of the United States, although it was supported by many of the other industrialized consumer nations (France was a notable exception). First, it provided a formal mechanism for the collective action of the consumers in any future crisis, along with structured emergency plans for sharing oil in the event of any future shortfall. It also imposed greater transparency upon the oil companies, which were required to provide a range of information, albeit some of it on a confidential basis. The oil crisis had brought home to the consumers how little they knew about the commercial operations of the oil companies upon which they relied so heavily.

The 1973 oil crisis demonstrated the extent to which the old petroleum order had changed. The oil majors, already having to adapt to a more complex and diverse oil industry, had lost the power to set prices: although in October 1973 they still ostensibly had majority management responsibility in most concessions, they were effectively unable to halt the cuts in production imposed by OAPEC. It was the governments of Iran and Iraq, rather than the oil companies, that decided to increase production from their oilfields to compensate for the shortfall. Even after the oil had been produced and sold on, the companies were solicitous of host government requirements, and refused to break the terms of the boycott. In addition, OPEC had demonstrated its willingness – and capability – to fix prices unilaterally, a power that they were unwilling to surrender. This was to have a longer-term impact upon the world oil industry, and meetings of OPEC continued to set oil prices for a number of years to follow. This shift of power away from the companies and towards OPEC raised additional concerns amongst consuming countries. Although in 1973 the oil companies succeeded in managing the available supplies to avoid any really serious shortfall even for those countries officially embargoed by the OAPEC, it was apparent that consumer governments could no longer assume that the major oil companies would necessarily serve their interests: nor could the parent governments assume that their special relationship with the companies would overcome the wishes of the host governments. A more formal arrangement, mediated through the IEA, replaced the tacit company-run oil regime.
Although there was a redistribution of power within the oil industry, the consequences for the large oil companies were mixed. As noted above, for many companies the immediate effect was a very positive one. Indeed, it has been suggested that the companies welcomed OPEC’s decision to impose an increase in price, as this benefited the companies yet allowed the blame to be focused on the producer states. 49 Moreover, the companies were no longer as subject to the often contradictory political pressures from parent, consumer and producing governments. Their position undoubtedly did change, with the rapid introduction of one hundred per cent participation for host governments. In particular, they tended to fulfil technical and managerial functions only, with decisions on prices and production levels now in the hands of the producing governments. In effect, this marked the end of the concession system, many years ahead of schedule. 50 They still had a crucial role to play, in part for their technical and managerial expertise, but also their worldwide network of transportation, refining and distribution facilities. However, the oil companies were no longer in a position to act as intermediaries between the producing and consuming countries. Far from being mediators, as they had been so often in the past, they had become scapegoats for their parent governments’ failure to grapple with the tension between their political goals and their economic interests. October 1973 marked the sudden demise of the post-war petroleum order which had served both the oil companies and the parent governments well.

The dire prognostications of many observers at the time that the consequences of the energy crisis would have fundamental long-term effects on the global system were in fact not to come to fruition. Although there were positive outcomes as regards the Arab-Israeli conflict, with a sustained period of shuttle diplomacy by Henry Kissinger initiating a new environment in which ultimately the Egyptian and Israeli governments were to reach an accord in the Camp David Agreement of 1977, the ultimate stated goal of the OAPEC embargo, to end the Israeli occupation of the territory seized as a result of the 1967 War was not achieved. Hopes that the example of OPEC when it came to exercising control over their crucial resource would be replicated by other producer nations failed to materialise, and the calls for a New International Economic Order speedily dissipated. Although the steep rise in the price of oil in the last quarter of 1973 had a profound impact upon the world economy, the high level of global inflation soon eroded the impact of that rise, and the real price of oil actually began to fall. However, for the first time since the Second World War, since which time the dependence of the industrialised nations on oil had grown exponentially, the vulnerability of consumers was graphically demonstrated, and the issue of oil security reinforced. The energy crisis of October 1973 was indeed, in many respects, a turning point for the international political economy.
ENDNOTES

1 For a fuller discussion of these aspects of the crisis, see my book, Fiona Venn, The Oil Crisis (London, 2002)
2 The following discussion of the background to the crisis is based upon this, and an earlier book, Fiona Venn, Oil Diplomacy in the Twentieth Century (Basingstoke, 1986)
5 A good study of the Iranian nationalization crisis is Steve Marsh, Anglo-American Relations and Cold War Oil (Basingstoke, 2003).
10 Memorandum of a conversation between Kissinger, Meir, Dinitz and General Yarv, 1 No
11 Henry Kissinger, Years of Upheaval (Little & Brown, 1982), pp. 882 and 890; and Peter Mangold, Superpower Intervention in the Middle East (London, 1978), pp. 72-6. Schlesinger apparently had begun to think in terms of using force at an earlier stage in the crisis: in a telephone conversation with Henry Kissinger on 10 October, i.e. even before the oil boycott had been announced, he referred to the possibility of occupation to protect American interests in Saudi Arabia, although it is not entirely clear which country he had in mind. Telephone conversation, Henry Kissinger and Secretary Schlesinger, 10 October 1973, in Henry Kissinger, Crisis: The Anatomy of Two Major Foreign Policy Crises (New York, 2003), pp. 164-70. Later in the month, he seemed to be planning to put troops in the Trucial States (now the United Arab Emirates) to get oil. Telephone conversation, General Haig to Henry Kissinger, 27 October 1973, ibid. p. 402.
12 Ian Skeet, OPEC: Twenty-Five Years of Prices and Politics (Cambridge, 1988), pp. 64-70
13 Figures taken from Rustow and Mugno, OPEC, p 25
14 Figures taken from ibid, p 24.
15 Seymour, OPEC, pp. 117-8
19 Simon Bromley, American Hegemony and World Oil: The Industry, the State System and the World Economy (Cambridge, 1991), p. 166
20 James A. Akins, 'The Oil Crisis: This Time the Wolf is Here', Foreign Affairs 51 (1973) pp. 462-490. The main message of the article is well conveyed by its title.
21 I have discussed this in more detail in Fiona Venn, ‘International Co-operation versus National Self-Interest: The United States and Europe during the 1973-4 Oil Crisis’, in K. Burk and M. Stokes (eds), The United States and the European Alliance since 1945 (Oxford, 1999).
22 Akins, 'The Oil Crisis' pp. 462-3.
As an indication of the complacency that prevailed, Denis Healey recounts in his memoirs how in June 1973 The Sunday Times refused to publish an article in which he had suggested that there might be an oil crisis later in the year triggered by a restriction of oil production by OPEC members for both economic and political reasons, dismissing the idea as ‘so preposterous as to be embarrassing’. Denis Healey, The Time of My Life (London, 1990), p. 348.

According to a Gallup poll conducted in December 1973, nearly a quarter of the population felt that the federal government was responsible for the energy crisis, and nineteen per cent specifically blamed the oil companies for the crisis, dismissing the idea as ‘so preposterous as to be embarrassing’. Denis Healey, The Time of My Life (London, 1990), p. 348.

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