THE OIL CRISES OF THE 1970S AND THE COLD WAR

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The oil crises of the 1970s had a significant impact on the course of the Cold War. Coinciding with US withdrawal from Vietnam, the Watergate crisis, a wave of revolutions in the Third World, the Soviet Union's achievement of nuclear parity with the United States, and the decline of US manufacturing as a result of increased competition from Western Europe and Japan, the oil crises reinforced perceptions of a weakened United States, raised questions about US leadership of the Western alliance, heightened concerns about the dangers of dependence on Third World resources, and led to fears that the Soviet Union was winning the Cold War. Ironically, the crises also set in motion changes in the world oil economy that played a crucial, and generally unappreciated, role in the collapse of Communism and the reassertion of US hegemony.

Although most scholars recognize the oil crises of the 1970s as a turning point in the evolution of the postwar international economic order, few examine the close connections between the oil crises and the Cold War. Oil is mentioned only twice in the 1,180 pages of Raymond Garthoff's *Détente and Confrontation*, and there is surprisingly little on oil in Odd Arne Westad's *Global Cold War*, despite its focus on the Cold War in

[1]This essay draws on David S. Painter, "Geopolitics and Oil: The Oil Crises of the 1970s and the Cold War," *Historical Social Research* 39 (2014): 186-208.

the Third World. Edited works on Richard Nixon's foreign policy and the "global" 1970s lack essays on the oil crises, as do volumes 2 and 3 of the *Cambridge History of the Cold War*, which overlap the decade.[2]

Similarly, most studies of the decade's oil crises largely ignore the Cold War context. Daniel Yergin's popular survey, *The Prize,* Raymond Vernon's classic edited volume, Steven A. Schneider's detailed study, and Fiona Venn's overview fail to place the crises in the larger geopolitical context of the Cold War.[3] Although Daniel Sargent includes the oil crises as one of three factors leading to a transformation of US foreign policy during the decade, he seems unaware of oil's role in the Cold War before the 1970s and thus fails to connect the crises to the Cold War, arguing instead that they led to a shift away from Cold War concerns.[4]

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[2] Raymond Garthoff, *Détente and Confrontation: American-Soviet Relations from Nixon to Reagan*, rev. ed. (Washington, D.C.: Brookings Institution, 1994); Odd Arne Westad, *The Global Cold War: Third World Interventions and the Making of Our Times* (Cambridge: Cambridge University Press, 2005); Fredrik Logevall and Andrew Preston, eds. *Nixon in the World: American Foreign Relations, 1969-1977* (New York: Oxford University Press, 2008); Niall Ferguson, Charles S. Maier, Erez Manela, and Daniel J. Sargent, ed. *The Shock of the Global: The 1970s in Perspective* (Cambridge, MA: Harvard University Press, 2010); Melvyn P. Leffler and Odd Arne Westad, ed. *The Cambridge History of the Cold War* (Cambridge: Cambridge University Press, 2010).

[3] Daniel Yergin, *The Prize The Epic Quest for Oil, Money, and Power* (New York: Simon & Schuster, 1991); Raymond Vernon, ed., *The Oil Crisis* (New York: W.W. Norton, 1976); Steven A. Schneider, *The Oil Price Revolution* (Baltimore: Johns Hopkins University Press, 1983); Fiona Venn, *The Oil Crisis* (London: Longman, 2002).

[4] Daniel J. Sargent, *A Superpower Transformed: The Remaking of American Foreign Relations in the 1970s* (New York: Oxford University Press, 2015.

Oil and the Cold War

Possession of ample domestic oil supplies and control over access to foreign oil reserves were significant, if often overlooked, elements in the power position of the United States during the Cold War.[5] One of the main features of the geopolitics of oil in the twentieth century was that, with two exceptions—the United States and the Soviet Union—none of the great powers possessed significant oil reserves within their borders. The United States was the world's leading oil producer for the first three-quarters of the century and has remained in the top three since then. US oil fields accounted for slightly less than two-thirds of world oil production in 1920, around two-thirds in 1945, and 23.5 percent in 1970. In 2017, US oil production was 13,057,00 barrels per day (bpd), 14.1 percent of total world production.[6] In addition to a thriving domestic oil industry, five of the seven great oil corporations (the so-called Seven Sisters) that dominated the international oil industry from the 1920s to the 1970s were American companies.[7]

Oil-powered platforms emerged during World War I, became central to military power during World War II, and remained important in the postwar era despite the

[5] David S. Painter, "Oil and the American Century," *Journal of American History* 99 (June 2012), 24-39.

[6] DeGolyer and MacNaughton, *Twentieth Century Petroleum Statistics 2005* (Dallas: DeGolyer and McNaughton, 2005; *BP Statistical Review of World Energy 2018*.

[7] Known as the "Seven Sisters" because of their close ties and multiple joint ventures, they included Standard Oil of New Jersey (Exxon); Socony (Mobil); Standard Oil of California (Chevron); the Texas Company (Texaco); Gulf Oil; the British-owned Anglo-Iranian Oil Company (after 1954 British Petroleum); and the Royal Dutch/Shell group, a 60 percent Dutch and 40 percent British partnership. See Anthony Sampson, *The Seven Sisters: The Great Oil Companies and the World They Shaped* (New York: Viking, 1975); Edith T. Penrose, *The Large International Firm in the Developing World: The International Petroleum Industry* (London: Allen & Unwin 1968).

development of nuclear weapons and ballistic missiles. Although nuclear-powered warships (mainly aircraft carriers and submarines) were developed in the 1950s, most of the world's warships still relied on oil, as did aircraft, armor, and mechanized transport, and each new generation of weapons required more oil than its predecessors used.[8]

In addition to being essential to military power, oil played an increasingly important role in the economies of the industrial countries. Oil became the fuel of choice in land and sea transport as well as the only fuel for air transport, challenged coal as the main source of energy for industry, and played an important role in heating and electricity generation. Oil-powered machinery became crucial to modern agriculture, and oil and natural gas became important feedstocks for fertilizers and pesticides. Already almost one-fifth of US energy consumption by 1925, oil accounted for around one-third of U.S. energy use by World War II. Outside the United States, oil was reserved mainly for the military and accounted for around 10 percent of energy consumption in Western Europe and Japan before World War II.[9]

Oil's economic importance increased after World War II as the United States intensified its embrace of patterns of socioeconomic organization premised on high levels of oil use, and Western Europe and Japan made the transition from coal to oil as their main source of energy. Between 1950 and 1972, total world energy consumption more than tripled. Oil accounted for much of this increase, rising from 29 percent of world energy consumption in 1950 to 46 percent in 1972. By 1972, oil accounted for 45.6

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[8] Painter, "Oil and the American Century," 24-29.

[9] J.R. McNeill, *Something New Under the Sun: An Environmental History of the Twentieth-Century World* (New York: W.W. Norton, 2000), 297-31; Schneider, *Oil Price Revolution*, 520-22.

percent of U.S. energy consumption, 59.6 percent of west European energy consumption, and 73 percent of Japanese energy consumption. Almost all the oil used by Western Europe and Japan was imported. The Soviet Union moved more slowly, but by 1973, oil supplied around 39 percent of Soviet energy consumption.[10]

Essential to both military power and the functioning of modern society, oil fueled American power and prosperity during the twentieth century. US domestic reserves and its ability to assure access to foreign supplies helped the United States and its allies to win both world wars and the Cold War. During the Cold War, US policy focused on containing the Soviet Union, ending destructive political, economic, and military competition among the core capitalist states, mitigating class conflict within the capitalist core by promoting economic growth, and retaining access to the raw materials, markets, and labor of the periphery in an era of decolonization and national liberation. Control of oil was central to these efforts, and to maintain access to oil in the Middle East, Latin America, and elsewhere in the Third World the United States sought to contain Soviet influence and opposed economic nationalism.[11]

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[10] Joel Darmstadter and Hans H. Landsberg, "The Economic Background," in *The Oil Crisis*, ed. Raymond Vernon, 16-22; Schneider, *Oil Price Revolution*, 49-75; Marshall I. Goldman, *The Enigma of Soviet Petroleum: Half-Empty or Half-Full?* (London: George Allen & Unwin, 1980), 52-54.

[11] David S. Painter, *Oil and the American Century: The Political Economy of U.S. Foreign Oil Policy, 1941-54* (Baltimore: Johns Hopkins University Press, 1986), Painter, "Oil, Resources, and the Cold War, 1945-1962" in *Cambridge History of the Cold War*, vol. 1, ed. Melvyn P. Leffler and Odd Arne Westad, 486-507; Charles Bright and Michael Geyer, "For a Unified History of the World in the Twentieth Century," *Radical History Review* 39 (1987), 82, 84; Simon Bromley, *American Hegemony and World Oil: The Industry, the State System, and the World Economy* (University Park: Pennsylvania State University Press, 1991).

Oil was also an important element in the power position of the Soviet Union. The Russian Empire was the world's leading oil producer for a few years around the turn of the century, and despite wars and revolution the Soviet Union remained among the top three producers until its demise, and held the top position from the mid-1970s until the mid-1980s.[12] The Soviet Union was unable to convert control of significant oil supplies into influence in international affairs, however. Soviet oil exports surged in the late 1950s and caused some divisions in the Western alliance, but West was able to contain the Soviet oil offensive.[13] Although oil was an important element in Soviet control of Eastern Europe, subsidized oil supplies to the region became a drain on Soviet resources and never succeeded in buying loyalty. Soviet oil rescued the Cuban Revolution, but the Chinese, ironically with Soviet assistance, discovered the vast Daqing oil field in 1959, just in time to fend off Soviet economic pressure after the Sino-Soviet split.[14] Despite geographical proximity, extensive efforts, and widespread

[12] *BP Statistical Review of World Energy, 2018*; Vagit Alekperov, *Oil of Russia: Past, Present, Future* (Minneapolis: Eastview Press, 2011), 251-89; Jeronim Perović, "The Soviet Union's Rise as an International Energy Power: A Short History," in *Cold War Energy: A Transnational History of Soviet Oil and Gas*, ed. Jeronim Perović (London: Palgrave Macmillan, 2017, 1-14; Central Intelligence Group, *Petroleum Resources Within the USSR*," Office of Records and Estimates (ORE) 4/1, 16 June 1947; CIA, *The USSR Petroleum Industry*, ORE 24-49, 5 January 1950; and CIA, *Flow of Petroleum in the Soviet Bloc European Satellites, 1952*, CIA/RR IM-375, 13 July 1953, in CIA Electronic Reading Room (hereafter CIA Documents).

[13] Bruce Jentleson, *Pipeline Politics: The Complex Political Economy of East-West Energy Trade* (Ithaca, NY: Cornell University Press, 1986), 76-131.

[14] Eric. T. Gettig, "Oil and Revolution: Cuban Nationalism and the U.S. Energy Empire, 1902- 1961" (Ph. D. dissertation, Georgetown University, 2017); Arthur Jay Klinghoffer,

anti-Western sentiment in Iran and the Arab world, the Soviets failed to achieve a secure foothold in the Persian Gulf and, except for Iraq, had little impact on the region's oil industry.[15]

The First Oil Shock

During the 1970s, a combination of political turmoil and shifts in the world oil economy threatened US control of world oil. The sharp rise in US oil consumption combined with quotas limiting US oil imports put a strain on US oil supplies. US oil reserves peaked in 1968 and oil production in 1970, and US oil imports rose from 19 percent of total demand in 1970 to 35 percent in 1973. The disappearance of spare productive capacity meant that the United States could no longer provide oil to its allies during supply interruptions, ending what had been an important element underpinning US influence in international affairs. At the same time the center of gravity of world oil production shifted from the Western Hemisphere to the Middle East; the region's share of world oil production rose from 7 percent in 1950 to around 42 percent in 1973, as oil companies concentrated their investments there to take advantage of low production costs.[16]

The Soviet Union and International Oil Politics (New York: Columbia University Press, 1977), 196-99.

[15] Fred Halliday, "The Impact of Soviet Policy in the Middle East," in *The Superpowers, Central America, and the Middle East*, ed. Peter Shearman and Phil Williams (London: Brassey's, 1988), 155-65.

[16] Darmstadter and Landsberg, "Economic Background,“ 31-35; for import statistics, see DeGolyer and MacNaughton, *Twentieth Century Petroleum Statistics 2012.* US production and Middle East share of world oil production calculated from figures in *BP Statistical Review of World Energy, 2017*.

In this environment, oil prices were already rising when, ten days after the onset of the October 1973 Arab-Israeli War, the Organization of Arab Petroleum Exporting Countries (OAPEC), cut back oil production in order to force Western Europe and Japan to put pressure on the United States to change its policy on the Arab-Israeli dispute. A few days later in response to significant US financial and military assistance to Israel, OAPEC imposed an embargo on oil shipments to the United States. OAPEC also placed an embargo on oil shipments to the Netherlands for its military assistance to Israel, and later extended the embargo to Portugal, South Africa, and Rhodesia.[17]

The embargo was not an "OPEC Embargo," as it is often called in both scholarly studies and popular accounts. OAPEC, which in 1973 was composed of Saudi Arabia, Kuwait, Libya, Iraq, Bahrain, Qatar, Algeria, the United Arab Emirates, Egypt, and Syria, initiated the embargo and production cuts. Although a member of OAPEC, Iraq went its own way, joining in the embargo, but not the production cuts. Non-Arab OPEC members, including Iran, Venezuela, Nigeria, and Indonesia, did not join the embargo or cut back production and exports. They were content to profit from the price increases and even boosted production. Indeed, the shah was a leading proponent of higher prices. Labeling the embargo an OPEC embargo obscures the specific political circumstances that led to it

[17] David S. Painter, "Oil and the October War," in *The October 1973 War*, ed. Asaf Siniver (London: Hurst, 2013), 173-77; Telegram 492 from Jedda to the Foreign Office, 16 October 1973, and Telegram 493 from Jedda to the Foreign Office, 16 October 1973, both in PREM 15/1765, United Kingdom National Archives (UKNA); *FRUS 1969-76*, doc. 336; *FRUS 1969-76*, 36, docs. 223-24.

and confuses the embargo with the pressure OPEC had been putting on prices since 1971.[18]

The international oil companies complied with the embargo, but undercut it by shifting non-Arab oil to the embargoed countries and distributing the cutbacks so that both embargoed and non-embargoed countries had their oil imports cut by 16-18 percent. In an already tight oil market, the production cutbacks and embargo drove oil prices upwards. The Persian Gulf producers unilaterally raised the price of oil from $3.01 to $5.11 a barrel shortly after the war began, and in December, they raised prices again to $11.65 (in nominal dollars).[19]

During the embargo Henry Kissinger, who in September 1973 had become Secretary of State as well as national security advisor, and Secretary of Defense James Schlesinger made public threats of military intervention. Schlesinger also raised the issue with the British Ambassador and with NATO officials, and both Kissinger and Schlesinger brought up the possibility in many meetings.[20] Kissinger claimed in his

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[18] George Lenczowski, "The Oil-Producing Countries," in *The Oil Crisis,* ed. Vernon, 60-67; Andrew Scott Cooper, *Oil Kings: How the U.S., Iran, and Saudi Arabia Changed the Balance of Power in the Middle East* (New York: Simon & Schuster, 2011), 143-48.

[19] Painter, "Oil and the October War,"184-85; Federal Energy Administration, *U.S. Oil Companies and the Arab Oil Embargo: The International Allocation of Constricted Supplies,* (Washington, DC: U.S. Government Printing Office, 1975 (hereafter *FEA Report*)

[20] *FR 1969-76*, 36, docs. 229, 244, 247, 251, 253, 255; Discussion between the Defence Secretary and the US Secretary of Defense, 7 November 1973, Cromer to Douglas-Home, 15 November 1973, both in United Kingdom, Foreign and Commonwealth Office, *Documents on British Policy Overseas*, Series 3, Vol. 4: *The Year of Europe: America, Europe and the Energy Crisis, 1972-1974* (ProQuest, 2014); Ministry of Defence to the Prime Minister, "Middle East," 28 November 1973, PREM 15/1768; "Note by the Assessments Staff, Middle East: Possible Use of Force by

memoirs that "these were not empty threats," and that contingency plans were prepared. Schlesinger later told interviewers that the United States planned to make use of already scheduled military exercises in the Persian Gulf as a cover for intervention in Abu Dhabi, which he believed would intimidate the other producers.[21]

The British government took Schlesinger's statements seriously and commissioned a study on the impact of the United States using force against Arab oil producers. The study concluded that if the United States intervened before exhausting all possibilities of a peaceful settlement, the consequences for Europe would be "disastrous." While Schlesinger apparently thought that seizing Abu Dhabi would suffice, the British study concluded that for military intervention to be successful, all the fields in the region, including those in Saudi Arabia, would have to be seized. This would be a huge task that would take some time, increasing the likelihood of sabotage of the oil fields and related infrastructure.[22]

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the United States," 12 December 1973, PREM 15/1768, both in United Kingdom National Archives (UKNA).

[21] Kissinger, *Years of Upheaval*, 880; Cooper, *Oil Kings*, 129-30; Jeffrey Robinson, *Yamani: The Inside Story* (London: Simon & Schuster, 1988), 100-02. On the exercises, see *FRUS, 1969-76*, 27, docs. 42, 46.

[22] "Note by the Assessments Staff, Middle East: Possible Use of Force by the United States," 12 Dec. 1973, PREM 15/1768; Hunt to the Prime Minister, "Middle East," 3 Jan. 1974, PREM 115/2153, both in UKNA. A study by the Congressional Research in summer 1975 came to similar conclusions; Congressional Research Service, *Oil Fields as Military Objectives: A Feasibility Study*, prepared for the Special Subcommittee on Investigations of the House Committee on International Relations (Washington, D.C.: Government Printing Office, 1975).

Rather than reflecting actual plans to intervene, the threats were probably intended to intimidate the Saudis and other Gulf producers.[23] The Saudis and Kuwaitis made it clear that, if attacked, they would destroy their oil facilities, thus denying the West access to their oil for many years. Similarly, a CIA review of possible military contingencies concluded that military intervention to gain control of the oil fields would be counterproductive because it would probably result in "destroying the very objective we seek." In addition, the Soviets would most likely have opposed U.S. intervention, possibly by providing assistance to allies such as Iraq. Finally, most European countries opposed the use of force except as the last resort, and the American public, in the wake of Vietnam, probably would not have supported U.S. military intervention in the absence of a clear threat to U.S. security.[24]

The United States sought to use the crisis to reassert its leadership of the Western alliance. The State Department Policy Planning Staff pointed out on 1 December that the United States, as the only major Western country that could not be shut down by an oil embargo, had an opportunity to "revitalize" its alliances. What "revitalize" meant is clear

[23] On the communicative aspects of the embargo, see the astute analysis by Rüdiger Graf, "Making Use of the 'Oil Weapon': Western Industrialized Countries and Arab Petropolitics in 1973-1974," *Diplomatic History* 36 (January 2012), 185-208.

[24] "Saudi Arabia Warns U.S. Against Oil Countermoves," *New York Times*, 23 November 1973, 1; *FR 1969-76*, 36, doc. 255, note 2. Kissinger and Schlesinger continued to make veiled threats of intervention after the end of the embargo, and there were a number of articles by conservative pundits calling for the United States to occupy Arabian oil fields. See *FR 1969-76*, 37, doc. 52; Congressional Research Service, *Oil Fields as Military Objectives*; Marwan R. Buheiry, *U.S. Threats of Intervention Against Arab Oil: 1973-1979* (Beirut: Institute for Palestine Studies, 1980). See also Sebastian Herbstreuth, *Oil and American Identity: A Culture of Dependency and US Foreign Policy* (London: I.B. Tauris, 2016), 159-77.

in a NSC memorandum three days later, which noted: "the unique role of the U.S. in the current oil crisis and in the longer term oil situation gives us some leverage with the Europeans. We have the power to make their oil situation better or worse."[25]

To gain the initiative as well as put pressure on the Arab states, Kissinger urged the main oil consuming nations to coordinate their policies. President Nixon on 9 January 1974 invited the major industrial nations to participate in an energy conference in Washington to develop a consumer group to improve the position of bargaining position of the oil consuming countries.[26]

The main consumer countries met in Washington from 11 to 13 February 1974. Most European nations, including the United Kingdom, desired a more independent role for Europe, but were reluctant to follow the French in openly opposing US policies. Unable to promote alliance cohesion by providing oil to its allies, the United States resorted to threats and warnings to try to gain cooperation. In his toast at the beginning of the conference, Nixon suggested that failure of Europe and Japan to follow US leadership on energy matters encouraged isolationism in the United States. Similarly, Kissinger warned that failure to solve the energy problem cooperatively "would threaten the world with a vicious cycle of competition, autarky, rivalry, and depression such as led to the collapse of world order in the 1930s."[27]

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[25] *FR 1969-76*, 36, docs. 256, 261, 262.

[26] *FRUS 1969-76*, 36: docs. 256, 261,262, 280, 293, 299, 314; Henry Kissinger, *Years of Upheaval* (Boston: Little, Brown and Company, 1982), 896-97.

[27] *FRUS 1969-76*, 36, doc. 318; Kissinger, *Years of Upheaval*, 905-25; Ethan B. Kapstein, *The Insecure Alliance: Energy Crises and Western Politics Since 1944* (New York: Oxford University Press, 1990), 171-75; Henning Türk, 'The Oil Crisis of 1973 as a Challenge to Multilateral

Most US allies blamed US policies for the production cutbacks and embargo. Nevertheless, most also understood the benefits of cooperation with the United States and, with the significant exception of France, went along with US plans to establish a consumer group to balance the power of the producers. The French government later changed course, and acquiesced in the formation of the International Energy Agency within the framework of the Organization for *Economic* Cooperation and Development in November 1974.[28]

In March, OAPEC decided to end the embargo after the United States helped negotiate ceasefire agreements between Israel and Egypt and Syria. Saudi willingness to end the embargo was also influenced by agreements with the United States to strengthen military and economic ties. In addition to providing military equipment, training, and technical assistance, the United States recommitted itself to protecting the Saudi regime against its internal as well as its external enemies. Most Arab states agreed to end the embargo on 18 March. The same day the Saudis announced that they would immediately increase oil production by one million barrels a day. Libya, however, did not end its embargo until July.[29]

Energy Cooperation Among Western Industrialized Countries, *Historical Social Research* 39 (2014): 209-30.

[28] Kissinger, *Years of Upheaval*, 896-97; Ian Skeet, *OPEC: Twenty-five Years of Prices and Politics* (New York; Cambridge University Press, 1988), 107; Aurélie Elise Gfeller, *Building a European Identity: France, the United States, and the Oil Shock, 1973-1974* (New York: Berghahn Books 2012), 120-22, 127-30, 171-75. France did not join the IEA until 1992.

[29] Lenczowski, "The Oil-Producing Countries," 60-67; Telecon, President Nixon/Secretary Kissinger, 11 Mar. 1974, Digital National Security Archive, Kissinger Telephone Conversations, KA 12113; Nadan Safran, *Saudi Arabia: The Ceaseless Quest for Security* (Cambridge: Harvard University Press, 1985), 173-74; Schneider, *Oil Price Revolution,* 242-43. Israel and Syria signed

Iran and the Second Oil Shock

From World War II to 1971, the United States looked to Great Britain to play a leading role as guardian of Western access to the oil resources of the Persian Gulf. Over time, the United States assumed greater and greater responsibility for the security and stability of the region, but British forces in the Middle East and the Far East remained an important element in the defense of the Persian Gulf from internal unrest and external pressure. In 1968, however, the British government informed the United States that they planned to withdraw their military forces from position "east of Suez" by the end of 1971.[30]

Embroiled in an unpopular war in Vietnam, the United States turned to Iran to take over as guardian of the gulf. The shah was eager to accept, hoping to restore the power and prestige of ancient Persia. Increased oil revenues as a result of the gradual price increases between 1970 and 1973 and the quadrupling of oil prices in 1973-74, provided the shah with the means to realize his dreams. Iranian military expenditures increased sharply, and the Nixon administration, ignoring warnings from the US

a ceasefire agreement on 31 May. The U.S.-Saudi agreements were not signed until June. On Kissinger's shuttle diplomacy, see Salim Yaqub, "The Weight of Conquest: Henry Kissinger and the Arab-Israeli Conflict," in *Nixon in the World*, ed. Fredrik Logevall and Andrew Preston, 227-48.

[30] Roland Popp, "Subcontracting Security: The United States, Britain, and the Gulf Before the Carter Doctrine," in *European-American Relations in the Middle East from Suez to Iraq*, ed. Daniel Mockli and Victor Mauer (London: Routledge, 2010), 171-86; Toru Onozawa, "The United States and the British Withdrawal from South Arabia, 1962-1967," *Japanese Journal of American Studies* 28 (2017): 83-103.

military mission in Iran, decided to give the shah a "blank check" to buy any US weapons system short of nuclear weapons.[31]

Between 1970 and 1978, the United States sold Iran over $20 billion worth of military equipment and training. The massive influx of oil money resulted in extravagant military spending, inflation, massive rural-urban migration, and increases in already sharp inequalities in wealth and income. The weapons systems the shah bought also brought thousands of Western technicians and military advisers into Iran, further inflaming conservative fears of corrosive Western influence, swelling the ranks of the shah's opponents. The relative decline in real oil prices in 1978 led to economic problems in Iran and the outbreak of widespread demonstration against the regime starting in early 1978, ironically shortly after President Carter had visited Iran and had praised the shah for making Iran "an island of stability in one of the more troubled areas of the world."[32]

The unrest escalated during the year, but Carter and his top officials, preoccupied with other important issues including the SALT II treaty, negotiations with China, the Camp David negotiations, and unrest in Nicaragua, paid little attention. By the time they realized how serious the situation was, it was too late to take action to save the shah's regime. Carter's national security adviser Zbigniew Brzezinski lobbied for military

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[31] *FR* 1969-76, 24, docs. 2, 82, 83, 86, 89, 91, 93, 133, 135, 140, 146; *FR* 1969-76, E-4: docs, 70, 75, 91, 122, 201, 204, 205, 210, 212, and 214; Roham Alvandi, Nixon, Kissinger, and the Shah: The Origins of Iranian Primacy in the Persian Gulf," *Diplomatic History* 36 (April 2012): 337-72.

[32] On the relationship between uneven economic growth and the emergence of radical opposition to the shah, see Mark J. Gasiorowski, *U.S. Foreign Policy and the Shah: Building a Client State in Iran* (Ithaca: Cornell University Press, 1991), 142-51, 187-222; and Fakhreddin Azimi, *The Quest for Democracy in Iran* (Cambridge: Harvard University Press, 2008), 244-47, 297-303. For Carter's remarks, see Michael H. Hunt, *Crises in U.S. Foreign Policy: An International History Reader* (New Haven: Yale University Press, 1996), 400.

intervention, either by the shah's forces or by the United States. At the end of December Brzezinski warned: "the disintegration of Iran, with Iran repeating the experience of Afghanistan would be the most massive American defeat since the beginning of the Cold War, overshadowing in its *real consequences* the setback in Vietnam."[33]

Brzezinski failed to convince the shah to crush the opposition by force or to organize a military coup, and President Carter refused to intervene directly with US forces. The shah left Iran in mid-January 1979, and in February, opposition leader Ayatollah Rouhallah Khomeini returned to Iran from exile and began the long and violent process of establishing a regime controlled by the Shia clergy.[34]

The turmoil surrounding the Iranian Revolution and its aftermath disrupted oil supplies and markets. Iranian exports briefly stopped in November 1978 and again in early 1979, before resuming later in that year at a reduced level. Although increases in production in other countries, in particular Saudi Arabia, partly offset the drop in Iranian exports, fear of spreading turmoil, the disruption of marketing channels, and a build-up of inventories due to fear of further problems resulted in 10 percent drop in the amount of

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[33] CIA Memorandum, 3 November 1978 on PRC Meeting on Iran, 6 November 1979; Stansfield Turner, Memorandum for the Record, 8 December 1978, both in CIA Documents; Brzezinski to the President, 2 Dec. 1978, *FRUS 1977-80*, 1, doc. 100; Brzezinski to the President, Weekly Report #83, 28 Dec. 1978, Brzezinski Collection, Subject File, Weekly Reports, 82-90, both in Jimmy Carter Library.

[34] Zbigniew Brzezinski, *Power and Principle: Memoirs of the National Security Adviser, 1977-1981* (New York: Farrar, Straus, Giroux, 1983), 358; Cyrus Vance, *Hard Choices: Critical Years in America's Foreign Policy* (New York: Simon and Schuster, 1983), 326; Jimmy Carter, *Keeping Faith: Memoirs of a President* (New York: Bantam Books, 1982), 438-445. The U.S. Ambassador to Iran, William H. Sullivan, chronicles the course of the revolution in *Mission to Iran* (New York, W. W. Norton, 1981). Bill, *Eagle and the Lion*, chap. 7, provides a brief, perceptive account of the U.S. response to the Iranian revolution.

oil available in international markets. Oil prices jumped from a posted price of $14.08 a barrel in 1978 to $31.61 in 1979, and reached $36.83 (in nominal dollars) in 1980 after the Saudis began to cut back their production.[35]

The Economic Impact

Higher oil prices intensified the economic problems faced by the United States and the other Western industrial countries in the 1970s, especially inflation, which was now accompanied by stagnation and unemployment**.** Industrial output fell and unemployment rates reached postwar highs. The cost of importing large amounts of more expensive oil also harmed the balance of payments of the United States and other importing countries.[36] Japan was hit especially since it imported almost all the oil it consumed and its industries were heavily dependent on oil. Japan's gross national product, which had been growing at around 10 per cent a year, stagnated for two years before resuming growth at around 5 percent a year.[37]

In contrast, higher oil prices produced windfall earnings for the Soviet Union. Between 1960 and 1973, Soviet oil production almost tripled. As production in Volga-Urals region plateaued, rich fields were found in the West Siberian Basin, making Soviet

[35] Yergin, *Prize*, 684-91; Jay Hakes, *A Declaration of Energy Independence: How Freedom from Foreign Oil Can Improve National Security, Our Economy, and the Environment* (New York: John Wiley & Sons, Inc., 2008), 55-58.

[36] Venn, *The Oil Crisis,* 145-72.

[37] Kaoru Sugihara, "Japan, the Middle East, and the World Economy: A Note on the Oil Triangle," in *Japan in the Contemporary Middle East*, ed. Kaoru Sugihara and J.A. Allan (London Routledge, 1993), 3-6; John S. Duffield, *Fuels Paradise: Seeking Energy Security in Europe, Japan, and the United States* (Baltimore, MD: Johns Hopkins University Press, 2015), 198.

oil reserves the largest in the world outside the Persian Gulf. In the mid-1970s, the Soviet Union overtook the United States as the world's leading oil producer.[38] Soviet oil exports to hard currency markets increased and hard currency earnings from oil exports doubled in 1973 and again in 1974 and continued to increase for the rest of the decade. By 1976, oil exports were responsible for around half of the Soviet Union's hard currency earnings and energy exports for almost 80 percent, enabling the Soviets to import large amounts of Western grain and machinery [39] Higher oil revenues may have made it possible for the Soviets to afford increased involvement in the Third World in the 1970. Conservative critics of détente even claimed that the October War 1973 Arab-Israeli War was an attempt by the Soviets to expand their influence in the Middle East, but scholars have found no evidence that this was the case.[40]

Most Soviet oil exports went to Eastern Europe, 42 percent in 1970 and 47 percent in 1978. Energy exports to Eastern Europe, of which oil was the most important by the 1970s, were a key element in Soviet efforts to maintain its sphere in Eastern Europe. Except for Romania, Eastern Europe lacked significant indigenous oil reserves and depended on the Soviets for almost all its oil needs. Soviet deliveries of oil and

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[38] Alekperov, *Oil of Russia*, 289-99; Goldman, *Enigma of Soviet Petroleum*, 33-56. Perović, "The Soviet Union's Rise as an International Energy Power," 14-24.

[39] In 2016 dollars, oil prices rose from $11.12 in 1960 to $107.27 in 1980; *BP Statistical Review of World Energy 2017;* CIA, *Soviet Energy Policy Toward Eastern Europe: A Research Paper*, June 1980, CIA Documents; Goldman, *The Enigma of Soviet Petroleum,* 6--7, 9, 91--92.

[40] Richard Ned Lebow and Janice Gross Stein, *We All Lost the Cold War* (Princeton, NJ: Princeton University Press, 1994), 149-288; David S. Painter, *The Cold War: An International History* (London: Routledge, 1999), 77-94; John Rosenberg, "The Quest Against Détente: Eugene Rostow, the October War, and the Origins of the Anti- Détente Movement, 1969-1976, *Diplomatic History* 19 (September 2015): 720-44.

natural gas were a critical energy source for most countries in the region, as the share of coal in total energy consumption declined during the 1960s and 1970s in every country except Romania. Oil imports from the Soviet Union as a percentage of total energy consumption in the region rose from 11.3 percent in 1970 to 15 percent in 1977.[41]

The Soviets also earned hard currency through arms sales to oil producing countries. Exports to developing countries of arms, military equipment, and dual-use civilian goods grew after the 1973 Arab-Israeli War as the rise in the revenues of oil exporters increased their purchasing power. Before 1973, Soviet arms transfers were mainly to newly emerging leftist regimes and national liberation movements. After 1973, more than half of Soviet arms deliveries went to Middle Eastern states with access to oil money. Most of these sales were for hard currencies or barter arrangements in which the Soviets received oil that they re-exported for hard currency. Between 1974 and 1984, the Soviets received around $19 billion in hard currency from arms sales, and earned around $23 billion on bilateral or soft currency arms sales.[42]

Finally, the oil crises of the 1970s accelerated the process by which the major oil producing countries acquired ownership, and thus full control, over their oil resources. In almost every case, the producing countries already owned their oil reserves. What the oil companies possessed were concessions that allowed them to control the production and distribution of the oil. In the late 1960s, the major producing nations declared their intention to participate in the ownership and control of their respective oil industries, calling for a gradual and compensated takeover of the oil facilities in their countries. The

[41] CIA, *Soviet Energy Policy Toward Eastern Europe*, CIA Documents.

[42] Smith, *Russia and the World Economy*, 88-96. The total sales figures were higher, but many of the countries did not pay their bills, resulting in a lower net gain.

oil crises, by providing the producing countries with extra revenues and the confidence to assert their prerogatives led to a massive buy-out of the major producing firms and the establishment of national oil companies in the producing countries. In 1970, national oil companies owned less than 10% of their oil industries; by the end of the decade (1979), the figure was almost 70% (68.7%). Full ownership of all aspects of their oil industries gave producing countries greater control over such factors as the pace of development of their reserves, the rate of production, and the destination of their exports.[43]

Aftermath

At first glance, it appears that the oil crises of the 1970s weakened the United States and its allies and strengthened the Soviet Union. In longer perspective, however, a different picture emerges. After a difficult decade, the United States was able to reassert its influence through a combination of military power, government policies, and market forces.

The United States sought to develop and deploy the military capacity to ensure access to Persian Gulf oil to replace US domestic reserves as a key source of US leverage over allies and adversaries.[44] The fall of the shah and fears of internal unrest in Saudi Arabia convinced US policymakers that the previous policy of reliance on regional surrogates to guard Western interests in the Middle East was no longer viable and

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[43] Brian Levy, "World Oil Marketing in Transition," *International Organization* 36 (Winter 1982): 113-33; Kenneth A. Rodman, *Sanctity Versus Sovereignty: The United States and the Nationalization of Natural Resource Investments* (New York: Columbia University Press, 1988), chap. 8.

[44] Toby Craig Jones, "America, Oil, and War in the Middle East," *Journal of American History* 99 (June 2012): 208-18.

renewed efforts to build up US military forces in the region. Concerns about Western vulnerabilities in the Middle East had existed since the onset of the Carter administration. Soviet and Cuban involvement in the Horn of Africa, astride the maritime routes to and from the Persian Gulf, raised concern about threat to Western access to the region's oil.[45] Reports about an impending oil shortage in the Soviet Union further fed fears of Soviet designs on the Persian Gulf. In 1977, three CIA studies had predicted that Soviet oil production would peak in 1980 and decline sharply thereafter, forcing the Soviet Union and its East European allies to look outside the Soviet bloc to meet their oil needs.[46] Although independent experts raised doubts about these predictions, and the CIA qualified its conclusions, the belief that the Soviets wanted to gain control of Persian Gulf oil persisted.[47] So far, scholars have found no convincing evidence that Soviet

[45] Brzezinski, *Power and Principle*, 177-81, 203-04; Brzezinski to Carter, 2 December 1978, *FRUS 1977-80*, 1, doc. 100; Olav Njølstad, "Shifting Priorities: The Persian Gulf in US Strategic Planning in the Carter Years, *Cold War History* 4 (April 2004): 26-33, 51, note 19; William E. Odom, "The Cold War Origins of the U.S. Central Command," *Journal of Cold War Studies* 8 (Spring 2005): 57-59.

[46] Brzezinski to the President, NSC Weekly Report #31, 7 Oct. 1977; Military Assistant to Brzezinski, Weekly Report, 22 Sept. 1977; US Central Intelligence Agency, *The International Energy Situation: Outlook to 1985*, ER 77-10240 U, April 1977; CIA, *Prospects for Soviet Oil Production,* ER 77-10270, April 1977; CIA, *Prospects for Soviet Oil Production: A Supplemental Analysis*, July 1977; Donald L. Bartlett and James B. Steele, "The Oily Americans," *Time*, 19 May 2003, *Time* Archive, http://www.time.com.

[47] "CIA Chided on Soviet Oil Predictions," *Washington Post*, 22 May 1978, A1, 7; Roger Stern, "Oil Scarcity Ideology in US Foreign Policy, 1908--1997," *Security Studies* 25 (2016), 242-43. The CIA revised its estimate in late 1983, noting that Soviet proved oil reserves were probably about twice as large as it previously believed and that in late 1977, the Soviet leadership began an intensive, high priority effort to develop West Siberian oil and gas. CIA, *Soviet Energy Prospects into the 1990s*, NIE 11-7-83, 14 December 1983, CIA Records Search Tool (CREST).

involvement in the so-called arc of crisis was driven by a desire to gain access to the oil resources of the Persian Gulf or to deny the West access to these resources.

The United States was exploring possibility of introducing US military forces into the region when Soviet intervention in Afghanistan in December 1979 revived fears of direct Soviet encroachment in the region.[48] Brzezinski wrote Carter on 26 December that if the Soviets succeeded in Afghanistan and Pakistan acquiesced to Soviet pressure, "the age-long dream of Moscow to have direct access to the Indian Ocean will have been fulfilled."[49] The CIA, on the other hand, did not believe that Soviet intervention in Afghanistan constituted the "beginning of a premeditated strategic offensive." Rather the CIA assessed the intervention, as a reluctant response to what Soviet leaders feared was the "imminent and otherwise irreversible deterioration" of their position in a neighboring country. While noting that the Soviets would probably try to take advantage of the situation in Iran, the CIA did not believe that the Soviet move in Afghanistan presaged action against Iran.[50]

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[48] *FRUS 1977-80*, 18, doc. 45; Brzezinski, *Power and Principle*, 177-81, 203-04; Olav Njølstad, "Shifting Priorities: The Persian Gulf in US Strategic Planning in the Carter Years, *Cold War History* 4 (April 2004): 26-33, 51, note 19; William E. Odom, "The Cold War Origins of the U.S. Central Command," *Journal of Cold War Studies* 8 (Spring 2005): 57-59. Soviet intervention in Afghanistan led the United States to shelve plans to take military action against Iran; Brzezinski, *Power and Principle*, 482-85; Carter, *White House Diary*, 368, 371, 372, 380.

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

[50] "Soviet Union and Southwest Asia," attached to Turner, Memorandum for the President, 15 Jan. 1980, NLC-133-42-2-2-3, Carter Library; Westad, *Global Cold War*, 316-26; Leffler, *For the Soul of Mankind*, 303-11, 329-34.

Although subsequent research supports the CIA analysis, Brzezinski recommended that the United States fashion deeper security arrangements with allies in the Middle East to prevent Soviet influence from spreading from Afghanistan to Pakistan and Iran, which "would place in direct jeopardy our most vital interests in the Middle East." The fate of Western Europe, East Asia, and the United States, he warned, were linked to the Persian Gulf and its oil. Invoking the legacy of the Truman Doctrine for more aggressive policies toward the Soviet Union, he also pushed for sharp increases in military spending and establishing a strategic relationship with China.[51]

In his State of the Union address on January 23, 1980, President Carter warned that the Soviet invasion of Afghanistan "could pose the most serious threat to the peace since the Second World War." The Persian Gulf contained more than two-thirds of the world's exportable oil, and Soviet control of Afghanistan would put Soviet military forces within 300 miles of the Indian Ocean and close to the Straits of Hormuz, through which most of the region's oil flowed. The Soviets, he concluded, were "attempting to consolidate a strategic position, therefore, that poses a grave threat to the free movement of Middle East oil." To meet this threat the President announced what became known as the Carter Doctrine: "An attempt by any outside power to gain

[51] Brzezinski, *Power and Principle*, 431; National Security Council Meeting, 2 Jan. 1980, in *The Fall of Détente: Soviet-American Relations during the Carter Years*, ed. Odd Arne Westad (Oslo: Scandinavian University Press, 1997), 332-51; Brzezinski to the President, 2 Jan. 1980, and Brzezinski to the President, 3 Jan. 1980, FRUS 1977-80, 18, docs. 134, 135; "An Interview with Zbigniew Brzezinski," *Wall Street Journal*, 15 Jan. 1980, 20; for context, see Melvyn P. Leffler, "From the Truman Doctrine to the Carter Doctrine: Lessons and Dilemmas of the Cold War," *Diplomatic History* 7 (Fall 1983): 245-66. On the overall US reaction to the Soviet intervention, see Raymond Garthoff, *Détente and Confrontation: American-Soviet Relations from Nixon to Reagan*, rev. ed. (Washington, D.C.: Brookings Institution, 1994), 1046--75.

control of the Persian Gulf region will be regarded as an assault on the vital interests of the United States of America, and such an assault will be repelled by any means necessary, including military force."[52]

To back up his policy, the United States took steps to improve its capability to deploy military forces rapidly in the region. In March, the Defense Department established a Rapid Deployment Joint Task Force (RDJTF) at MacDill Air Force Base in Florida. The United States also began negotiations to secure access to facilities in the region and made preparations to preposition equipment on land and on special ships.[53] Planned from the time of the collapse of the shah's regime, the move reflected U.S. belief that local forces were not sufficient to protect Western interests in the Middle East from either Soviet aggression or internal instability. The Carter administration also sought to strengthen the "special relationship" between the United States and Saudi Arabia by continuing to sell sophisticated arms to the kingdom and by allowing the Saudis to buy massive amounts of US Treasury securities outside normal channels.[54]

Planning continued through the year, and in one of its last official acts, the Carter administration in January 1981 elevated the status of the Persian Gulf in terms of U.S. strategic priorities. In a pair of Presidential Directives signed on 15 January 1981,

[52] Jimmy Carter, *Public Papers of the Presidents, 1980-1981* (Washington, D.C.: U.S. Government Printing Office, 1980-81), 194-200, quotation on 197; also in *FRUS 1977-80*, 1, doc. 138.

[53] Brzezinski, *Power and Principle*, 446, 456; Michael A. Palmer, *Guardians of the Gulf: A History of America's Expanding Role in the Persian Gulf, 1833-1992* (New York: Free Press, 1992), 106-11.

[54] David E. Spiro, *The Hidden Hand of American Hegemony: Petrodollar Recycling and International Markets* (Ithaca, NY: Cornell University Press, 1999).

the Carter administration assigned the Persian Gulf region top priority for resources in the Five Year Defense Plan and second place, after Western Europe, in terms of planning for wartime operations.[55]

Although the US Naval presence in the Persian Gulf more than doubled, progress in getting Persian Gulf states to sign basing and access agreement moved slowly. In 1983, the RDJTF became the US Central Command, a regional unified military command with responsibility for protecting US interests in the Middle East, North Africa, and Central Asia. Eventually, US intervention in the so-called "tanker war" between Iran and Iraq in 1987-88 convinced regional states to allow the US military greater access to facilities in their territory.[56]

To address the economic conditions that had led to the oil shock, the OECD nations in the mid-1970s launched a coordinated campaign to protect themselves from future disruptions in supply. The campaign focused on reducing oil consumption through greater efficiency and conservation, replacing oil with other energy sources, particularly in electricity generation, and reducing oil imports from OPEC producers, especially those in the Middle East, by increasing oil production elsewhere.[57] IEA members also sought to

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[55] Presidential Directive PD/NSC-62, "Modifications in US National Security Strategy," 15 Jan. 1981, Federation of American Scientists web site; Presidential Directive PD/NSC-63, "Persian Gulf Security Framework," 15 Jan. 1981, *FRUS 1977-80*, 18, doc. 98. Njølstad, "Shifting Priorities," 42-48.

[56] Hal Brands, *Making the Unipolar Moment: US Foreign Policy and the Rise of the Post-Cold War Order* (Ithaca, NY: Cornell University Press, 2016), 235, 238-39; Toby Craig Jones, "After the Pipelines: Energy and the Flow of War in the Persian Gulf, " *South Atlantic Quarterly* 116(April 2017): 417-25.

[57] Henning Türk, "Reducing Dependence on OPEC Oil: The IEA's Energy Strategy Between 1976 and the Mid-1980s," in *Counter-Shock: The Oil Counter-Revolution of the 1980s*, ed.

increase their oil stocks, either thorough working with private companies or, as in the case of the United States, establishing a government-owned Strategic Petroleum Reserve.[58]

Although these efforts lagged due to declining real prices for oil between 1974 and 1979, the second oil shock revived them. Between 1979 and 1985, oil consumption in the non-communist world fell from 51.6 to 46.3 million bpd as a result of higher prices and recessions in 1973-1975 and 1979-1982. In addition, coal and natural gas replaced fuel oil in many industrial and utility uses, and total use of nuclear power by the advanced industrial countries more than doubled. Over the same period, non-OPEC oil production, mainly in Great Britain, Norway, Mexico, and the United States, increased from 17.7 to 22.6 million barrels per day, as higher prices and advances in technology, especially in offshore production, spurred increased output. The result was a 10.2 million bpd drop in demand for OPEC oil.[59]

Japan accounted for around 20 percent of the decrease in oil consumption. The Japanese government responded to higher oil prices and insecurity of supply by

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Duccio Basosi, Giuliano Garavini, and Massimiliano Trentin (London: I.B. Tauris, 2018), 241-58.

[58]Bruce A. Beaubouef, The US Strategic Petroleum Reserve and Energy Security Lessons of the 1970s, in *American Energy Policy in the 1970s*, ed. Robert Lifset (Norman, OK: University of Oklahoma Press, 2014, `63-83; Paul; Sabin, “Crisis and Continuity in US Oil Policies, 1965-1980;” *Journal of American History* 99 (June 2012), 183-86.

[59] Edward T. Dowling and Francis G. Hilton, ”Oil in the 1980s: An OECD Perspective,” in *The Oil Market in the 1980s: A Decade of Decline*, ed. Siamack Shojai and Bernard S. Katz (New York: Praeger, 1992), 75, 77-78; Hakes, *Declaration of Energy Independence*, 41-70; Tyler Priest, “Shifting Sands: The 1973 Oil Shock and the Expansion on Non-OPEC Supplies,” in *Oil Shock: The 1973 Crisis and Its Economic Legacy*, ed. Elisabetta Bini, Giuliano Garavini, and Federico Romero (London: I.B. Tauris, 2016), 100-09.

promoting conservation and efficiency in energy use, conversion of electricity generation and industrial processes from oil to other fuel sources, accelerating construction of nuclear power plants, expanding coal and liquefied natural gas imports, and seeking oil supplies outside the Middle East. These policies took time to bear fruit, and Japanese oil consumption, which had reached 5.265 million bpd in 1973, fell only slightly in 1974 and increased to 5.491 million bpd in 1979, but over time Japan was able to reduce its oil consumption by over a million barrels per day by 1985.[60]

Despite the disruption caused by the Iran-Iraq War, these changes in supply and demand began to affect oil prices. In addition, breakup of vertical integration increased competition among producers for markets, a development that the major oil companies promoted and exploited to drive down prices.[61] After initially trying to support prices by reducing output, the Saudi leadership decided in the summer of 1985 to regain their position in world markets by increasing production. Rather than selling oil at a fixed price, the price would be based on what refined products sold for in the marketplace minus a fixed margin for the refiner. The new system put a premium on volume rather than price and led to a collapse of world oil prices, which fell to around $17 a barrel in the first quarter of 1986 and $11 in the second quarter.[62]

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[60] Duffield, *Fuels Paradise*, 199-200; Yergin, *Prize*, 654-55: Kaoru Sugihara, *Middle East, East Asia, and the World Economy: Further Notes on the Oil Triangle*, Working Paper Series No. 9 (Kyoto: Afrasian Centre for Peace and Development Studies, 2006), 4-7; *BP Statistical Review of World Energy*, 2018,

[61] Francesco Petrini, “Counter-shocked? The Oil Majors and the Price Slump of the 1980s,” in *Counter-Shock*, 76-96.

[62] Ian Skeet, *OPEC: Twenty-five Years of Prices and Politics* (Cambridge: Cambridge University Press, 1988), 194-212, 241; Majid Al-Moneef, “Saudi Arabia and the Counter-Shock of 1986,” in *Countershock*, 99-116 CIA, “Threat Outlook: Lower Oil Prices: Impact on the Soviet Union,” 13

During the 1970s, high oil and gas prices and energy export oil earnings masked the Soviet Union's increasingly severe economic problems, and by giving the illusion of continued viability to a system that was already in serious trouble reduced incentives for undertaking sorely needed structural reforms. Moreover, the cost of developing Siberian oil, including the necessary transportation infrastructure, drained scarce capital from other sectors of the Soviet economy and caused massive environmental damage.[63]

The sharp rise of oil prices in the 1970s also put pressure on the Soviet position in Eastern Europe. The first oil shock left the Soviets in the position of selling oil to Eastern Europe far below market prices. Oil sold to Eastern Europe reduced the amount of oil the Soviets could sell for hard currency. The Soviets raised prices in 1975, and cut back exports to Eastern Europe. Forced to buy oil on world markets, many East European countries borrowed from Western banks, debts they struggled to repay. The second shock made matters worse, and Eastern Europe was already facing a debt crisis when the

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February 1985; CIA, *Saudi Arabia, Kuwait, UAE: Asset Management in Austere Times*, GI 85-10099, April 1985; CIA, *OPEC: Narrowing Options in a Softening Oil Market*, GI 85-10165, June 1985; CIA, *The Saudi Oil Offensive*, GI M 86-20084, 31 March 1986, all in CREST. The Energy Information Administration (EIA) of the US Department of Energy puts Saudi production in August 1985 at 2.34 million bpd; EIA, *Historical Monthly Energy, 1973—1992* (Washington, DC: Energy Information Administration, 1992), 309.

Yergin, *Prize*, 745-51; Victor McFarland, "The United States and the Oil Price Shock of the 1980s,"in *Counter-Shock*, 259-77.

[63] Thane Gustafson, *Crisis Amid Plenty: The Politics of Soviet Energy under Brezhnev and Gorbachev* (Princeton: Princeton University Press, 1989); Robert C. Allen, "The Rise and Decline of the Soviet Economy, *Canadian Journal of Economics* 34 (November 2001), 859-8.

collapse of oil prices in the mid-1980s eroded Soviet willingness and ability to pay the cost of maintaining a sphere of influence in the region.[64]

The price collapse decimated Soviet hard currency earnings and undermined the reform plans of the new Soviet government of Mikhail Gorbachev, who had come to power in March 1985. Gorbachev hoped to use oil earnings to finance a modernization of Soviet industry and to improve living standards, thus easing the transition from a command economy to a market economy and a more democratic society. Instead, declining oil prices played an important role in the collapse of the Soviet economy and the end of the Cold War.[65]

Although the oil producers' initial success in increasing their revenues encouraged Third World demands for a new international economic order, higher oil prices hit non–oil-producing developing countries especially hard because they had to pay higher prices for oil at the same time as demand for their exports dropped due to the

[64] Stephen Kotkin, "The Kiss of Debt: The East Bloc Goes Borrowing," in *The Shock of the Global: The 1970s in Perspec*tive, ed. Niall Ferguson, Charles S. Maier, Erez Manela, and Daniel J. Sargent (Cambridge, MA: Harvard University Press, 2010), 80-93; Perović, "The Soviet Union's Rise as an International Energy Power," 19-22; Fritz Bartel, ""'Fugitive Leverage: Commercial Banks, Sovereign Debt, and Cold War Crisis in Poland," *Enterprise and Society* 18 (2017): 72-107; Michael de Groot, "A Golden Opportunity: The Soviet Union, CMEA, and the Energy Crisis of the 1970s." forthcoming in *Journal of Cold War Studies*.

[65] David S. Painter, From Linkage to Economic Warfare: Energy, Soviet-American Relations, and the End of the Cold War," in *Cold War Energy: A Transnational History of Soviet Oil and Gas,* ed. Jeronim Perović (London: Palgrave Macmillan, 2017), 298-302; David S. Painter and Thomas S. Blanton, "The End of the Cold War," in *A Companion to Post-1945 America,* ed. Jean-Christophe Agnew and Roy Rosenzweig (Oxford: Blackwell, 2002), 479–500.

impact of high oil prices on the economies of their key customers.[66] Developing countries were also left out of the "oil triangle" of trade and financial flows that allowed Japan and other East Asia industrial countries to pay for oil imports from the Middle East by increasing their exports to the United States and Western Europe, which exported military equipment and absorbed petrodollars from Middle East oil exporters into their banking systems.[67]

The United States opposed efforts to set up mechanisms to help Third World oil importers cope with high oil prices through the International Monetary Fund and the United Nations, managing to keep such funding at a very low level. As a result, petrodollars were recycled through the private banking systems. The banks, flush with petrodollars from the oil exporting countries, were eager to lend and offered low interest rates, and many countries borrowed more than they could afford, a move that contributed to the Third World debt crisis of the 1980s when interest rates rose sharply in late 1979. To make matters worse, massive US borrowing on world capital markets in the 1980s led to higher rates and more stringent conditions for loans to developing countries and East European countries.[68]

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[66] *FRUS 1969-1976*, 36: doc. 346; Venn, *The Oil Crisis*, 173-200; Giuliano Garavini, "Completing Decolonization: The 1973 'Oil Shock' and the Struggle for Economic Rights," *International History Review* 33 (September 2011): 473-87; Christopher R. W. Dietrich, *Oil Revolution: Anticolonial Elites, Sovereign Rights, and Economic Culture of Decolonization* (New York: Cambridge University Press, 2017), 263-80.

[67] Sugihara, "Oil Triangle," 6-10.

[68] Sargent, *A Superpower Transformed*, 130, 141, 184; Dietrich, *Oil Revolution*, 281-301; Dietrich, "Oil Power and Economic Theologies: The United States and the Third World in the Wake of the Oil Crisis," *Diplomatic History* 40 (June 2016), 512-29; Fritz, Bartel, "Inverting Foreign Aid: The Reagan Financial Buildup," paper presented at the conference, "Ronald Reagan

Conclusion

To understand the transformation of the global system during the 1970s, scholars must understand the interaction between the oil crises and the Cold War. Possession of ample domestic oil supplies and the ability to ensure access to foreign oil reserves were significant elements in the power position of the United States in the Cold War. US oil production peaked in 1970, however, making the United States increasingly dependent on oil imports and ending its ability to provide oil to its allies during supply interruptions. At the same time, economic nationalism and war and revolution in the Middle East led to disruptions in supply and sharp increases in oil prices in 1973-74 and again in 1978-80.

The oil crises raised questions about US leadership of the Western Alliance and its ability to ensure access to Middle East oil, heightened concerns about the dangers of Western dependence on Third World resources, and fed fears that the Soviet Union was winning the Cold War. Higher oil prices intensified the economic problems faced by the United States and the other Western industrial countries in the 1970s. In contrast, the Soviet Union overtook the United States as the world's leading oil producer in the 1970s, and the windfall from higher oil prices bolstered an increasingly troubled Soviet economy and helped support Soviet military power and influence in world affairs.

Although the oil crises of 1970s initially harmed the United States and its allies and contributed to the demise of détente, they also set in motion changes that led to the

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and the Transformation of Global Politics in the 1980s," Austin, TX, January 2017; Giovanni Arrighi, "The Africa Crisis: World Systemic and Regional Aspects," *New Left Review* 15 (May-June 2002), 5-36.

collapse of communism and the reassertion of US hegemony. Accounts that neglect the interaction of the oil crises of the 1970s and the Cold War are incomplete, and therefore misleading.