CHAPTER II
THE OIL WEAPON' BEFORE 1973

The use of oil as a diplomatic 'weapon' by the Arab nations against the West and Israel has been a recurring theme in Arab political thought since the early 1940s - a symptom, as it were, of the Arab States' failure to contain by diplomatic and military means what they unanimously saw as Zionist expansionism. Anticipating Western support of the Zionist cause, the Arab League passed a set of resolutions in June 1946, one of which called for denial of oil to the west.¹

When hostilities broke out in May 1948 in Palestine, the decision to embargo the supply of Arab oil to the West was not implemented, largely due to opposition by the oil giant Saudi Arabia, which believed that a commercial oil operation should be divorced from political consideration.² Considering that fact that at that time al Arab oil was being produced by the West-dominated oil companies, the Arab League realised that its member states had no voice in deciding the level of production, price, and export of the commodity.

Nevertheless, this premature attempt to use oil as a diplomatic lever in the settlement of the Arab-Israel conflict had some successes as noted by George Lenczowski:

1. Leaues of Arab States, Efforts of the League of Arab States in Petroleum Affairs, 1945-65 (Petroleum Affairs Department Publications, Cairo 1965), p.6 and see Lenczowski, George, Oil and State in the Middle East (Ithaca, N.Y., 1960), p. 188.

2. Ibid.
...in a gesture of defiance toward Israel and out of solidarity with other Arab states Iraq stopped the movement of oil by pipeline to the Israeli-held Haifa terminal and caused construction by the parallel line between Kirkuk and Haifa to cease ... and ... boycott measure against Israel by the Arab League gradually affected the transactions of a number of oil companies with Israel.

Prior to October 1973 Arab-Israeli war, there had been two main attempts by the Arabs to use their oil as an instrument of diplomacy both of which failed to produce significant 'bargaining', though they did cause temporary disruptions in the world oil trade.

The first attempt took place following the Anglo-French-Israeli attack on Egypt in June 1956. The Arab countries not only blocked the flow of oil to Israel but also the Mediterranean via Suez Canal, and the pipelines from Iraq and Saudi Arabia were closed. Some pipelines were blown up by nationalist elements in retaliation for the tripartite attack on Egypt. The situation arising from the closure of Suez Canal and the emmisary on shipment of Arab oil to Britain and France produced serious consequences for their economy. The oil embargo increased prices in Britain and France, as the oil companies had to obtain the commodity from the United States, which shipped their Middle Eastern oil products via the Cape of Good Hope which again entailed more costs. As a result oil rationing was introduced in Western Europe.

3. Ibid.
During the Suez War, in a strange duet the United States found itself in 'alliance' with Soviet Russia. They played a major role in calling upon Britain, France, and Israel to withdraw their forces from the occupied territories. Directly or indirectly the two super powers urged Egypt and other Arab countries to abandon the embargo on the shipment of oil to their adversaries. Consequently, Arab attempts to use their control over oil as a diplomatic weapon for a long period of time failed, again without achieving the desired goal of settling the Arab-Israel conflict. The oil embargo which lasted for six months had no lasting impact on the West European economy.

The second incident occurred when several Arab oil-producing countries imposed an embargo on oil supplies to the United States, Britain, and West Germany following Israel's attack on Egypt in June 1967. By this time Arab oil had become even more important to most of the industrialised world due to the fact that oil had almost replaced the use of coal since 1965. As the war broke out Egyptian President Nasir announced to the world that Britain and the United States had joined Israel in its attack upon the Arabs. He also said that the US Sixth Fleet helped in the Israeli attack on Egyptian airports and military bases.4 These accusations were proved to be wrong, but at that time the Arabs took them seriously. Notices were issued to the oil companies to cease exporting oil to the countries black-

listed by the Arab such as Britain and the United States. Germany was added to the list of its sale of gas masks to Israel. For the first time the Arab oil-producing nations shut down all their oil production. As further retaliatory action on Saudi Arabia and Kuwait, "Bands of saboteurs assembled with explosives, ready to destroy the big companies installations once and for all." Before the oil fields could be blown up by the saboteurs Arab troops moved in to occupy them. Soldiers were ordered to stop the flow of oil, but their presence prevented sabotage. The pattern of 1956 oil embargo was repeated by closing the Suez Canal once again, and this time it was closed indefinitely.

The European economy was not as badly hurt as in 1956, because oil was imported from Libya, Algeria and Venezuela. The United States also exported oil to Britain and other European countries to help them meet the crisis.

This time the oil embargo was of short duration, for only two weeks later oil flowed again. There were several reasons for the failure of the embargo. First, because of the inaccurate propaganda, the Arabs decided to use their oil weapon as the only alternative to inaction. Second, within a few days all of them found that none of the countries had the financial strength to carry on the oil embargo without getting money from the oil companies. "Saudi Arabia was the first to feel the pinch

King Faisal was informed by his finance minister that there was no more in the till, and that for once Aramco was unable to help.  

Finally, the Arab summit conference, held in Khartoum shortly after the war, decided that oil should be used positively as a political weapon, the implications being that their approach was based on false propaganda and other wrong notions.

The oil shots missed the targets because, first, the United States was not hurt by them. On the contrary, the embargo enabled the international oil companies to make handsome profits by sizeable production of US, Venezuelan, and North African oil. Second, despite the closure of Suez Canal the oil companies were able to supply oil to their customers in Europe without much difficulty. Third, no quota ceilings was imposed by the Arab governments which encouraged overlifting of oil from Mediterranean and other ports.

These abortive attempts made the Arabs realise that the proper and positive use of oil as a weapon of diplomacy can only be made if sufficient funds are available to sustain the long and arduous task of implementation of an embargo and to help the have-nots in the rank and file of the Arab world.

6. Ibid., p. 344.
The 1973 Oil Embargo

Following the June War of 1967 the whole context of inter-Arab politics changed. Although the Arabs were not originally motivated by international repercussions, they were beginning to give serious thoughts to their pan-Arab sentiments. The message of military defeat was equally clear to the belligerent and non-belligerent. "There could hardly be a competition for prestige when there was no prestige remaining", observed Malcolm Kerr. 7 Self-interest and rivalry were no longer as strong a factor deterring concrete action aimed at unity and sharing wealth as before.

The Arab countries involved directly in the conflict with Israel in 1973 were Egypt, Syria and Jordan. These are oil-poor nations, although a little oil activity is seen here and there in these countries, with the exception of Jordan. These countries called on the big oil-producing nations to use oil as a weapon in the struggle against Israel in the name of Arab solidarity. For example "in 1967 Saudi Arabia cut the flow of oil involuntarily, under pressure by Nasir, and therefore, it did not enforce the

measure strictly and cancelled it as soon as possible". However, pressure or no pressure, Arab nations in general responded to the call of Arab unity and put their oil into use against Israel or the West whenever the occasion demanded.

In 1972, the Economic Council of the Arab League undertook a study of the strategic use of Arab economic power vis-à-vis Israel and the oil-consuming industrialised world. The report did not call for an embargo but called upon the consuming nations to alter their uncompromising policy toward Israel. Gradually Saudi Arabia and other Arab nations were coming under increasing pressure to reduce their oil production.

On 17 October 1973, ten days after the outbreak of the fourth Arab-Israeli War the Arab oil ministers met in Kuwait with the declared purpose of deciding how best to deploy the oil weapon in support of the military war of liberation undertaken by Egypt and Syria. They decided to cut oil production by at least 5 per cent monthly until Israel's evacuation of all Arab territory occupied during the June 1967 war and the achievement of the rights of Arab Palestinians, or until further cuts would be detrimental to the national and Arab policies of the producing countries. The Arab oil ministers also reserved the right to deny oil to any country they considered unfriendly.

During the first ten years of its existence, OPEC could not prove itself an effective tool, though it announced several times to rationalise international oil industry, control output and raise prices, but without any result. In the second half of nineteen sixties the production of oil was in excess which resulted in the fall in crude prices. However, control of output was still in the hands of the international oil companies which could not control the decline in prices but could manage to maintain stability in the market. Oil producing countries sensed the revenue bonanza that could be theirs if they could jointly and effectively control the production, but they could not fulfill their dreams and could not evolve a formula to control the output. By the end of 1960s one could foresee that this situation would not continue indefinitely. The gap between prices and supply of oil was unnatural and illogical. It appeared that the United States did not need to fear interruption in supply of oil or a change in the price structure. As far as politically inspired change in oil supply and increase in the prices is concerned the American administration seemed quite sure that it would not happen. It was thought that the countries, the most likely perpetrators of such a move, may not be able to cooperate among themselves, with desired effectiveness, to put such a pressure. The gap between supply and price of oil was formally discussed at first OPEC conference in Baghdad, 10-14 September 1960 when in Resolution 1.1 and 1.2 demanded that "Oil Companies maintain their prices steady".

Though the United States was not dependent much on the Middle East for its oil requirements, its main source of supply
remained Western Hemisphere. The best insurance against any disruption in supply from the East. For the United States what was at stake was its political hegemony in the Middle East.

But unfortunately for America the myth of its position in the international oil system got eroded in early seventies. Beside domestic supply line, which was on decline, Libyan supply was doubtful as the pro-Western regime of King Idris was replaced by a revolutionary and nationalistic one. Two gulf states, Saudi Arabia and Kuwait adopted a conservationist position that in future they would not allow the rate of oil output to shoot as high as the oil companies and consuming countries wish to. In result international oil companies started loosing their position and control of crude output in many oil producing countries.

In the meantime the United States received another blow in the supply of crude oil, this came from the next door neighbour-Canada. This development shattered American confidence. Earlier America had imposed restrictions on import of Canadian oil for a short time in early 1970 and one general trade restriction in August 1971. These developments were followed by an outbreak of Canadian nationalism resulted in a rebellion against American "exploitation of Canadian resources, specially oil and gas. Most Canadian oil fields were owned by American multinationals. They left only the local costs of labour and materials plus a small tax and royalty in Canada. The Canadian government decided in the early seventies to conserve oil for Canadian requirements and to sell only the surplus to America.  

Before the outbreak of Yom Kippur war successive American Administrations were very much alive to the volatile situation in the Middle East and they also considered it a powder keg which may erupt any time and endanger the world peace. The Johnson Administration was more preoccupied with Vietnam and could not or did not pay much attention to the Middle East. But Johnson's successor Richard Nixon, who had handled the Middle East as Vice President in fifties, put the region on top priority and announced "I believe we need new initiative and new leadership on the part of the United States in order to cool off the situation in the Middle East. I consider it a powder keg, very explosive. It needs to be defused."\(^\text{12}\)

To achieve the objective of resolving the Middle East problem Nixon revived the Jarring Mission. Beside this the United States continued bilateral talks with the Soviet Union. The Russians calling for the implementation of UN Resolution 242 and unconditional withdrawal of Israel from the occupied Arab territories, while the United States agreed to Israeli withdrawal only under certain conditions that would ensure Israeli security.\(^\text{13}\)

These negotiations did not produce any result.

These negotiations were followed by a series of four power talks between UN representatives of the United States, France, Great Britain and the Soviet Union. These negotiations could not cut much ice but all four permanent members of the Security Council endorsed the UN Resolution 242 and affirmed the support for the Jarring mission.\(^\text{14}\)

\(^\text{13. Department of State Bulletin, 21 April, 1969, p. 337.}\)
In order to add more weight to its efforts in the Middle East William Rogers, Secretary of State, put forward a plan that became the basis for United States policy vis-a-vis the Arab World for the coming years. Secretary Rogers asserted that the United States supported the Resolution 242 and endorsed the Jarring peace mission.\(^\text{15}\)

All these efforts including Four Power negotiations, Jarring mission and Rogers' plan did not bear any fruit as Israel remained adamant not to vacate Arab territories as demanded in UN Resolution 242. Meanwhile the situation on Arab Israel borders and along the Suez Canal deteriorated. Incidents of artillery duels between Egypt and Israel took place which led to the anti-aircraft missiles along the western bank of the Suez Canal and a devastating Israeli raid on Palestinian refugees in Lebanon deteriorated the situation further.\(^\text{16}\)

To prevent the skirmishes converting into a full scale war the United States undertook bilateral talks with Egyptian President Gamal Abdel Nasir. Secretary of State Rogers shuttled between various Arab capitals and Tel Aviv and came out with a new diplomatic initiative to stop the shooting incidents along Arab Israel border. William Rogers also suggested that Israel, Egypt and Jordan observe a ninety-day cease fire in order to make the atmosphere conducive for peace talks. The new proposal


\(^{16}\) *Department of State Bulletin*, 1 June, 1970, p. 675.
brought a ray of hope as both Jordan and Egypt accepted the proposal forthwith but Israel took a fortnight to respond, (though the response was positive). Immediately after a ceasefire came into effect Jarring commenced a series of exchanges between representatives of Israel, Egypt and Jordan. But the negotiations did not last much as Israel called back its representative alleging that the Egyptian and Russians were using the ceasefire to build up Egyptian forces along the Suez Canal and peace talks were broken off.

In the mean time two significant developments took place a civil war broke out in Jordan and President Nasir died of a heart attack.

Nasir's successor Anwar Saadat proved amenable for a settlement with Israel. When the water became clear and Saadat got himself settled firmly in the office, peace efforts of Ambassador Jarring were resumed. Jarring delivered aide memoires to Egypt and Israel in which preconditions were laid down for a final settlement. According to this aide memoire Israel was to withdraw from the occupied Arab territories and Egypt was to guarantee Israel's territorial integrity and political sovereignty. Although Saadat had some reservations

regarding the intention of Israel. He agreed with Jarring's pre-conditions and stated categorically that Egypt would make peace with Israel provided Israel withdraw from the occupied Arab territories. Saadat hoped that this would lead to the opening of the Suez Canal - the backbone of Egyptian economy. On the one hand Israel agreed to make peace with Egypt but on the other it remained adamant on withdrawal from the occupied territories and said that Israel would withdraw from the occupied territories upto the secure, recognised and agreed boundaries to be established in the peace agreement. Israel categorically refused to withdraw to the pre-June 5, 1967 lines.

In the first quarter of 1972, the United States suggested to Faisal that if he would help persuade President Saadat to reduce the Russian presence in Egypt America would press Israel to vacate the occupied Arab land.

There was not much progress in peace efforts in the Middle East, and the 1972 presidential election was approaching nearer. Nixon team was preoccupied with election preparations but the situation in the Middle East remained unsatisfactory. While the entire country was gripped in elections of primaries, Secretary


Rogers presented a new six-point formula in UN general Assembly. According to the plan: i> the Canal agreement would be the initial step to implement Resolution 242; ii> it was hoped that the ceasefire would help to find common understanding between the parties on this issue; iii> principle of withdrawal looking to an overall settlement as a fact than as a mere theory; iv> ways must be found for altering and strengthening the supervisory mechanism which have existed in the area for the past two decades and; v> arrangements must be made to permit the stationing of Egyptian forces on the East bank of Canal and; the Canal must be open to passage for all nations without any discrimination,24 Israeli Prime Minister Golda Meir branded the plan as merely a reproduction of Rogers' 1969 scheme and added that it regrettably failed to contribute to the advancement of the special arrangements for the opening of the Suez Canal.25

American efforts to bring about peace in the Middle East based on UN Resolution 242 were not successful. The whole context of diplomacy was changed by the single most important event in post-War history, the United States and the Soviet union agreed to avoid military confrontation that would lead to war. This agreement was termed as detente. In this agreement both the super powers undertook not to supply offensive weapons to the belligerent parties and they cautioned

Arabs and Israelis to avoid taking rash actions that might lead to renewal of hostilities. The detente and embargo on offensive weapons came at a time when Arab radicals were pressurising Saadat to end "no war, no peace" condition. In the meantime disgusted with Soviet refusal to supply offensive weapons President Saadat ordered the packup of Soviet military advisers from Egypt. The Nixon administration was reluctant to take any tough step against Israel, keeping the Jewish support for the election in mind.

Whether American Jews supported Nixon or not but he retained White House for the second term. Nixon was again in a position to pursue a peace initiative in the Middle East and William Rogers said, "We are going to do what we can diplomatically to see if we can get negotiations started between Egypt-Israel." Rogers also reaffirmed American support to UN Resolution 242." The Arab radicals pinned some hopes in Nixon's second term in office but these hopes did not last long as Israel was now adopting a tougher stand vis-a-vis American peace initiative. Israeli attitude made Arab radicals and Palestinian refugees restless. The uninterrupted American support to and its identification with Israel pushed Arab radicals closer to the

Soviet Union and China, a development that could have serious consequences for the US position in the region of the Persian Gulf."30

On domestic front in the United States the consumption and dependence on imported oil was increasing at an alarming pace. In the summer of 1971 American expert Walter J. Levy, declared that by 1980 the United States would require 21 million of oil per day. Since American domestic production could not possibly meet the anticipated demand, Levy suggested that the US would look to the Middle East to meet its growing requirements of oil.31

Inside the administration also the thinking was more or less the same, James Akins, Department of States' oil expert also subscribed the same view and assessment. Akins warned the US policy makers that by 1980 America would need 24 million barrels of oil per day, of this only 50 per cent would come from domestic sources while for approximately 35 per cent of oil requirements the country will have to depend on imports from the Middle East.32

The very fact that some 300 to 500 billion barrels of proven reserves is located in the Middle East made the United


32. Akins, James,"The Oil Crisis: This Time the Wolf is Here", Foreign Affairs April, 1973, p. 463.
States re-think about its special and most preferential relationship with Israel. Saudi Arabia's King Faisal, an ally of the West, warned several times that a pro-Israeli tilt in US policy will "ultimately drive all Arabs into the Communist camp..."\textsuperscript{33} Beside King Faisal and other diplomatic officials also pointed out this fact and some of them went to the extent of threatening West that they may have to pay a heavy price for their love for Israel. According to these threats the prime target would be United States in case Arabs decide to use oil as an weapon of diplomacy.\textsuperscript{34}

Meanwhile a tug of war was going on between the international oil companies and the oil producing countries over the control of oil production and price. Sheikh Abdullah Tariki, the founder of OPEC, was leading pro nationalisation group, while the other group was not in favour of nationalisation. Taking advantage of the situation Algeria Iraq and Libya nationalised the oil companies and the holding of foreign oil companies. This war of nerves was followed by seizure of Iraq Petroleum Corporation's pipeline, which takes Iraqi oil to the Mediterranean via Syria.\textsuperscript{35}

The Libyan leader Muammar Qadaffi termed the nationalisation

\textsuperscript{33} Ibid., p. 463. James Akins was at time posted as the US ambassador in Saudi Arab and these warnings were personally conveyed to win. There is no reason to doubt his version.

\textsuperscript{34} Ibid.

\textsuperscript{35} Newsweek, 12 June, 1973.
as a "slap in the face" of pro Israeli United States. Qaddafi elaborated:

It is high time the Americans took a strong slap on their arrogant face. American imperialism has exceeded every limit. The American support of our Israeli enemy threatens our security with their aircraft carriers and, from time to time, the Americans threaten our territorial water. 36

Some Western oil experts suggested that to counter this the Arabs should adopt a tougher line vis-a-vis the oil producing countries but good sense prevailed and Western policy makers turned down such a move on the plea that it would aggravate the situation further and may have disastrous results. 37

Meanwhile the Arab-Israel border tension continued unabated. This tension was putting considerable strain on Arab-West relations also - the main actor being America. The US-Arab tension revolved around oil wells which is evident in Faisal's veiled threat. He said that it would be "difficult to continue co-operation with the United States in the petroleum field unless Washington moves toward a more balanced policy in the Middle East." 38

Disturbed by the supply of sophisticated weapon to Israel by the United States King Faisal, who had occupied the central

37. Akins, James, n. 25, p. 485.
stage in the Arab world, sent in early 1973 a delegation to America to talk and, if need be, make clear their policy regarding American behaviour in the Middle East. In Washington Zaki Yamani, Saudi oil minister and leader of the delegation, linked oil with politics for the first time. King Faisal was under tremendous pressure from his fellow Arab neighbours for using oil as a weapon. Faisal also told ARAMCO's president that he would "not be able to stand alone much longer."  

It was not only an Israeli factor but economic compulsion also that made Arab oil producers give a second thought to their oil production policy. Emphasising on the co-relationship between Arab economic requirements and oil output King Faisal said:

"Logic requires that our oil production does not exceed the limits that can be absorbed by our economy. Should we decide to exceed the limit in response to the needs of the United States and the West, two conditions must be satisfied. First, the United States and the West must effectively assist the Kingdom of Saudi Arabia industrializing itself in order to create an alternative source of income to oil, the depletion of which we shall be accelerating by increasing production ... so that we can absorb the excess income resulting from production at such a level. Secondly, the suitable political atmosphere, hitherto disturbed by Middle East crisis and Zionist expansionist ambitions, must be present."  

The other oil producer and non oil producer Arab leaders also held the same view. The Secretary of Kuwaiti Ministry of Foreign Affairs declared that "Kuwait has always subscribed to the notion that oil should be used as a weapon in the confrontation with Israel." King Husain of Jordan, usually not a vocal leader, also endorsed the strategy by saying "Oil is a formidable weapon if it is used properly."

On the front of multinational oil companies nervousness was evident and the American oil giants felt frightened at the very mention of oil embargo. Rising prices, nationalisation and ever increasing participation of oil producers in decision making. Some oil experts, associated with multinationals, predicted that America would have to choose between supporting Israel or loosing oil assets in the Middle East and ultimately oil companies will have to pay the price.

To make the matter worse the tension in the region was mounting with rising mercury in the summer of 1973.

In September 1973 sporadic incidents of armed clash took a new turn—this time rather alarming—when Israel claimed to have shot down 13 Syrian planes in action over Latakiya, while Syria

claimed shooting down five Israeli planes.\textsuperscript{46} This was followed by Syrian troops movement up to the cease fire line at Golan Heights and by Egypt at Suez Canal.\textsuperscript{47} The concentration of troops by Syria and Egypt was not treated as serious by US and Israeli intelligence.\textsuperscript{48}

By this time the war had not broken out but the stage was set for a big show down.

The strategy adopted in October 1973, involved an attempt to force Western countries to ask themselves some penetrating questions about the rights and wrongs of the dispute. The Arabs hoped the West would adopt a more enlightened attitude and use its political and diplomatic influence to redress the injustices suffered by Palestinians and other Arabs. It should be noted that the Arabs used oil as a pressure mechanism in 1973 only after years of failure to achieve their goals by other political means. Moreover, the decision was preceded by a great deal of deliberation.

It can be viewed as an effort to compensate for their military weakness, that the Arabs began to consider the potential of oil as an instrument of diplomatic bargaining. The Western powers responded with an intense psychological campaign designed


\textsuperscript{48} Department of State Bulletin, 29 October, 1973, p.534.
to persuade the Arabs to keep oil outside the realm of politics, that is, to treat it like any other commodity in international trade flows-strictly as a source of financing capital imports and development efforts. But these efforts were in vain and the Arabs decided to protect their interests by attacking others interests - interests of the West, patrons of Israeli expansionism.

Unlike earlier Arab oil embargoes, the 1973 embargo was monolithic and had clearly stated reasons, objectives, and mechanics. The following reasons were given by the Arab Oil Ministers for the embargo: a> continued occupation by the state of Israel, since 1967, of Arab territories, in defiance of UN resolutions and the various peace efforts made by several states; b> continued refusal of the state of Israel to restore the legitimate rights of the Palestinian Arabs; c> failure of the most of the industrial countries that import oil to take positive action to reflect their international obligations toward the Arab-Israeli dilemma; d> the support given by some of the industrial countries to help Israel consolidate its occupation of Arab territories; e> US encouragement of Israel's intransigence and arrogance in total disregard of international law, by insisting on supplying Israel with the most sophisticated weapons before and during the 1973 October war; and f> the existence of a state of war between the Arab countries and Israel and the use of embargoes of different types as instruments of war.**49**

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The continued Israeli occupation of Arab territories was viewed by the Arab states as an unbearable situation that forced Egypt and Syria to initiate military action against Israel. This, in turn, induced the Arab oil-exporting states to make certain decisions to expedite action on the part of the United States and other industrialised states to help change the status quo.

Hence, the main objective of the oil embargo was: to draw the attention of the world to the Arab cause in order to create the suitable political climate for the implementation of Security Council Resolution 242, which calls for the complete withdrawal from the Arab occupied territories, and for the restoration of the legitimate rights of the Palestinian people. 50

The mechanics used by Arab oil producers to implement their 1973 embargo involved a number of steps. In their meeting in Kuwait on 17 October 1973 the OAPEC oil ministers decided that each Arab exporting state should cut its production by no less than 5 per cent of the September production. In their subsequent meeting, in November 1973, they decided that each would drop production in November to 75 per cent of September's output, with a further 5 per cent cut following in December. 51 The 25 per cent cut back included the complete embargoes already imposed on shipment to the United States and the Netherlands, declared by the Arabs to be pro-Israeli.

51. New York Times, 6 November, 1973
More than any other country, the United States was singled out by the Arab oil producers as the major supplier of military and economic aid to Israel. The oil embargo was imposed on the United States on the assumption that the United States was the only country that could exert substantial pressure on Israel to change its behaviour. The following statement, made by Algeria's Minister of Industry and Energy, further clarifies Arab objectives:

We are not, and we have not been contrary to what has been often reported, asking the United States to change its policy. We simply have asked the U.S. to fit its action to its stated policy. One of tenets of U.S. policy has always been the refusal to recognize or accept the acquisition of territory by force. This is something that has not only been stated and repeated frequently by the United States, but also was voted by the United States as a member of the Security Council of the United Nations, which ordered the evacuation of Arab lands seized by Israel in the 1967 war. All we are asking is that these U.N. resolutions be carried out.

As the Arab embargo came into effect, panic gripped Europe and Japan. However, the situation was not one of absolute panic in the United States, but serious concern was noticeable during the embargo days. Both radical and conservative Arab states embargoed oil against the United States, the Netherlands, and of course, Israel. Saudi Arabia, the most conservative of all, wanted to put pressure on the United States to minimise its support for Israel. Iraq, one of the most radical, believed that Europe, barring few countries, and Japan, which were increasingly showing a friendly attitude toward the Arab cause, should be

supplied with oil. The Arabs knew that nothing spectacular could be expected from the United states, which had a declared pro-Israeli bias for obvious domestic political reasons.

The embargo had its greatest impact on European nations and Japan, where up to 90 per cent dependence on Arab oil existed. At the time of the embargo, the United States was directly or indirectly dependent upon the Arab countries for 10-15 per cent of its imported crude oil and petroleum products. The European nations and Japan, with their heavy dependence on Arab oil, were subjected to serious Arab diplomatic pressure or blackmail as news media reports indicated. At times the Arabs issued ultimatums or threats that a rigorous oil embargo would be imposed on Europe and Japan if their policies toward Israel were not changes. Indeed, succumbing to the pressure, Britain and West Germany, both known for their long pro-Israeli biases, banned arms shipments to the combatants, including Israel.53 London even stopped American transport planes from landing on British territory and Bonn protested the shipments of American arms from Germany. Thus a rift was developing in NATO, and the United States was left alone in its support of Israel. The European governments denied that they had been threatened in any way by the Arabs. The fact is that while Britain and other

European countries were adopting a neutral position toward the Arab-Israeli conflict, the supply of oil from the Arab world was becoming progressively more assured. As the Sunday Times pointed out, "Britain's oil is safe - if we behave ourselves".  

Another important power in Europe, France, because of its special relationship with the Arabs, expected a better deal from them and indeed received an almost uninterrupted flow of oil. Meanwhile, Japan attempted to retain its neutral position by continuing support to UN Security Council Resolution 242 which called for Israeli withdrawal from occupied Arab lands.

How was it that the few desert Arab nations could seek wide compliance in their policy from Europe and Japan and bring such pressure to bear on the United States that the industrialised world suddenly moved from a wasteful habit of living toward conservation of resources by introducing as rationing, banning weekend driving, closing service stations, lowering thermostat, reducing driving speeds, to save energy Britain even legislated a three-day week for work, and in Germany foreign workers were paid bonuses to quit and go back home to Spain, Turkey and Yugoslavia? To answer these crucial questions let us resort to


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what may be called a technical description of the consumption of oil in the industrialised countries of the West and Japan.

World dependency on Arab oil increased from 34 per cent in 1957 to 54 percent in 1973. Let us also review the impact on prices of this heavy world dependency, as OPEC members, individually and collectively, put their 'petrodiplomacy' into practice.

The price increase occurred in three steps during the embargo period. The first price increase, on 16 October 1973, was relatively uninfluenced by the embargo since the decision had been taken prior to the embargo. The six largest oil-producing countries on the Persian Gulf - announced a price increased from $3.1 a barrel on 1 October to $5.12 on 16 October. The next price increase by these nations came on 23 December, effective as of New Year's Day, when the price of a barrel of oil was raised to $11.65. But the actual market price rose to $15 to $17 per barrel. Libya and Nigeria set a new tax reference price, ranging from $14.60 to $18.75 a barrel for crude oil.

Speaking for the oil producers, the Shah of Iran, argued that the posted prices of oil should be adjusted upward to

56. Time 6 January, 1975
57. Petroleum Times, 26 October, 1973
reflect the market price and expressed the view that the current pricing system devised by the international oil companies should be discarded, and exhorted other to "base future prices on the costs of supplying alternate source of energy". Libya and Algeria wanted to push prices as high as possible. In this price escalation Iran, Libya and Algeria were opposed by Saudi Arabia which proposed a smaller increase because it wanted to keep the politically motivated embargo separate from OPEC's pricing policy to avoid the impression that the embargo had been imposed for monetary reasons. Saudi Arabia felt that a sharper increase in price would debase the political message the Arabs wanted to communicate to the world.

The next increase occurred in January 1974 when Kuwait announced its 60 per cent participation formula and the price of oil went up by more than $1 per barrel. These increases in price are rational, said the oil producers, mainly on grounds of worldwide inflation. Inflation did not occur suddenly with the beginning of the October 1973 war; it had started long before. It appears, therefore, that taking undue advantage of the war and the embargo, Iran, in association with other non-Arab major oil


producers, spearheaded the move to quadruple the oil prices, which, otherwise, would not have risen to rapidly in so short a period.

Often times the oil-producers decide to increase taxes, royalties, and buy-back prices, claiming that they are not raising the prices of oil. The companies which are making exorbitant profits from oil sales are not willing to reduce their margin of profit. Thus the increase is ultimately passed on to the consumers.

As a result of the oil embargo and fourfold rise in the oil prices shifted the balance in favour of oil-producing countries. As observed by Walter Levy, an international authority on oil trade and technology, "The balance among oil producing and exporting countries, oil consuming and importing countries, and among oil companies themselves appear ... to have shifted decisively in favour of the producing countries."^60

By the time the first year of the energy crisis for the non-Communist world was nearing an end in 1973, the Arabs launched a vigorous diplomatic and publicity campaign all over the Western world and Japan. The Saudi Minister for Petroleum, 

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Sheikh Zaki Yamani, accompanied by the Algerian Minister for Power, Abdessalam, toured Western Europe, the United States, and Japan to explain the Arab oil policy. They held press conferences and met with target groups all over these countries to clarify the Arab stand on the use of oil in their struggle for the liberation of Israeli-occupied Arab territories.

Almost simultaneously, King Faisal in his first public speech since the October War called on all the Muslims of the world to mobilise their resources "to rescue our sacred places in Jerusalem from the Zionist and Communist menaces". Speaking to a group of high-ranking Haj pilgrims Faisal, who was the 'servant' of the holy places of Islam - Makkah and Madina, told them that he had a special responsibility for liberating Jerusalem, which includes the mosque of Omar, Islam's third holiest place - Makkah and Madina being the first and the second, respectively.

During this period, the West found itself at disadvantage and complained about "blackmail" and mixing of economics and politics. The mixture, however, has always existed. Indeed, since the Arabs have seen Western

countries use export restrictions for political purpose against Cuba, the USSR, and China, it can be argued that the Arabs actually learned how to mix politics and economics from the West. The Arabs also wonder about the use of term "blackmail". Why is it blackmail when Arabs use oil as a diplomatic weapon but not when the West uses other commodities for political bargaining. The Arabs believed that the role of oil just be viewed in an economically and political interconnected world, where nations use economic power for political advantages and vice versa. They further believed that since oil is important to the West, they are entitled to receive that which is important to them in return for supplying it. Otherwise, it would be an unfair exchange.

Saudi Arabia, taking the lead in the imposition of the oil embargo, began to plead for moderation soon thereafter, and it was under the moderating influence of its Oil Minister, Yamani, that the embargo could be lifted on 18 March 1974, by a decision of most of the OAPEC states meeting in Vienna. He also "steered OPEC towards a freezing of crude oil posted prices for another three months..."62 Following the lifting of the embargo, oil

supplies to the United States were resumed. Yamani accomplished a three-month price freeze by threatening to break the united oil price front of OPEC by posting a separate lower price. To maintain the unity of OPEC — a most successful international cartel — the members agreed to Yamani's proposal to freeze oil prices.63

There were two OPEC meetings in the summer of 1974, one in Quito, Ecuador, in June and the other in Vienna in September. In these meetings Yamani tried to stave off increases in price by threatening to increase production. The other producers countered by pleading to cut back production by an equal amount. Saudi Arabia felt that the price of oil was already high and any further increase would attract substitution of oil which would make oil reserves useless. Other producers were in disagreement with Saudi Arabia and the result was a compromise, a slight increase in price.64

Most of the people of the world were puzzled by the Arabs' decision to use oil, a primary commodity, as a weapon in their struggle against Israel, an act which on the surface looked unfriendly to everyone. Apparently oil was used as a diplomatic weapon and not so much for economic expediency, although some OPEC nations took economic advantage of its initially.


Unlike earlier oil embargoes, the October 1973 embargo succeeded in making the international community realise the "importance of the Arab world" and promoting a better "understanding of Arab-israel problem".

By 1973 the political situation in the Arab world had changed in several ways. The succession of President Saadat in Egypt in 1970 led to a real improvement in Egypt's relations with Saudi Arabia, a fact which encouraged the latter to abandon its isolationist policies of the 1960s and assume an active and positive role in Arab affairs. Furthermore, growing disillusionment of Saudi Arabia with American Middle East policy, which was becoming more and more inconsiderate of Washington's "Arab friends", had prompted King Faisal to abandon his publicly enunciated principle that oil should not be used as a negative political weapon. The announcement of Saudi intention to employ its oil for political and diplomatic bargaining on behalf of the Arab cause was a major factor influencing the radicalisation of Arab attitudes on the question of using oil for political ends. Other factors which strengthened the Arab resolve to apply the oil measures and contributed their success include the following:

a> By mid 1973 most, if not all, of the Arab oil-producing countries had reached a position of economic strength where they could, if necessary, put back their oil production without seriously damaging their economies.
b> Because of the general tightness of supplies, and the absence of significant surplus capacity outside the Arab world, the Arabs did not need to cut back their oil output by more than 25 per cent at any time during the embargo to make an impact on the world economy.

c> The fact that the two principal Arab combatants - Egypt and Syria - had taken the initiative for the first time since 1948 in waging a war of liberation against Israel created the necessary moral pressure for the deployment of the oil weapon by the non-combatant Arab states.

d> The United States, the power with the greatest direct leverage on Israel had become significantly more dependent on Arab oil supplies by September 1973.

e> Learning from earlier abortive attempts to apply the oil weapon, the Arab policy-makers realised that selective embargoes which are not backed by overall outbacks in production cannot be effective because they are difficult to police.

The Arab objective, since the imposition of the embargo, has been to tie in America's relations with its Atlantic partner which are the major consumers of Arab Oil. While the United States was firm in its Mideast policy the Europeans were not in a position to offer effective resistance to Arab pressure simply
because of their greater dependence on Arab oil. The Arab pressure on Europe worked as a reversal of the earlier European colonial situation although no permanent dent was created in America's relations with its Atlantic partners, the tendency in Europe "was not to blame the Arabs, or even Israel, but to say that it was United States' Middle Eastern policy that was causing Europe to freeze this winter".65 Indirectly, the Europeans were putting pressure on the United States to adopt an even-handed policy in the Middle East. It is through continued dialogue and closer relations with the Western Europe that the Arabs attempted to weaken Israeli ties with the Western European nations and, through it, with the United States.

As a result of oil embargo, North Atlantic Treaty Organization (NATO) was confronted with its biggest crisis since the Suez War of 1956 because of Western European opposition to the supplying of arms to Israel from US bases in Europe, and differences over policy toward the oil embargo exacerbated the strains within the alliance still further. Meanwhile, the Common Market was split by the failing of Great Britain, France, Italy,

and West Germany to come to the aid of fellow European Economic Community member, the Netherlands, which was also hit by a total oil embargo.

Japan, as the second largest energy consuming country and the largest importer of oil, suffered more than any other country in the industrialised world from a prolonged curtailment of Arab oil supplies. Japan is dependent on oil for 73 per cent of its primary energy requirements and some 99 per cent of its oil is imported, of which 66 per cent comes from the Middle East. The oil weapon could have paralysed Japan's industry and bring its annual growth rate down from 9 per cent to zero.66

Another objective was to isolate Israel from the main current of international politics and create a sense of insecurity for the Jewish state. The need for peace is greater for Israel than for the Arabs, both economically and politically, mainly because of three new developments after the 1973 war. Because of fear of insecurity immigration to Israel became slow and emigration from the Jewish state accelerated. Added to this is a 25 per cent inflation of Israeli currency due to higher cost of military spending, which resulted in the devaluation of the Israeli pound by 43 per cent in 1974 and again by 2 per cent the

following year. At the same time foreign investment in Israel slumped by about 60 percent.\textsuperscript{67} Fears of an Arab boycott was seen as a factor inhibiting foreign investment in Israel. Politically, the Arabs were successful in isolating Israel internationally. Following the October war and oil embargo many Afro-Asians which had earlier established diplomatic links with Israel severed these relations. Thus, Israel was rendered insecure, while the Arabs retained in their possession tremendous new-found wealth in the form of petrodollars. As the Palestinians Arabs continue to gain more sympathy in the world there is consequently a reduction in sympathy towards Israel. The Arabs were successful in cutting off support for Israel by the United Nations Educational Scientific and Cultural Organization (UNESCO) in 1974. In the future Arabs might initiate such actions by the United Nations and other UN agencies.

These policy shifts towards the Arabs position have greatly aggravated Israel's political isolation, and were having an effect on Israeli moral and bargaining power.

As the result of oil embargo Palestinian-Arabs consolidated their position under the banner of Palestinian Liberation Organization (PLO). PLO was accepted as sole representative of

\textsuperscript{67} Washington Post, 2 April 1975.
Palestinians people by 20 Arab nations at the Rabat summit meeting of the Arabs in October 1974. 69

The prospect of a dialogue with the consuming states or the possibility of more serious conflict with them served to support the unity of the producer states. In January 1975, in an interview in Business Week Secretary Kissinger declared that the actual 'strangulation' of the industrialized nations would be justification for the use of military force against the producing countries. 70 This comment aroused a storm of indignation in the Middle East, but Kissinger pointed out that the interview as a whole had been conciliatory in tone, warning against the counter productive effect of strong political and economic pressures on the producing states. Speculation about possible military moves, fueled by the statements of American officials and by sensational articles in popular journal, like Harper's based on scenarios for a United States takeover of the Saudi oil-fields, under code-named Dhahran Option Four, 71 caused Henry Kissinger to give specific public assurances to King Faisal:

I would like to state categorically here that our relations with Saudi Arabia are based on friendship and cooperation in which threats—military or otherwise—play no part. They are based on cooperation not on confrontation.\textsuperscript{72}

Kissinger's assurance might not have removed all Arab apprehensions but it should be considered an important diplomatic landmark. This statement amply demonstrates the vital importance oil had assumed in international politics by the end of 1974.

Although the main target of 'Arab weapon' was the United States but other industrialised countries were also 'strangulated', including the traditionally pro-Arab developing countries. The response of the states thus affected varied considerably.

\textsuperscript{72} Arab News, 20 March, 1975.