

Emory Resources in Middle Eastern Studies

Oil in the Middle East

What is Oil?

Petroleum – commonly called oil – is a fossil fuel. It is created in a process spanning millions of years, through the application of pressure and heat to the decaying remains of ancient organisms. The origins of petroleum have two important implications for the modern world. First, oil is a nonrenewable resource. Once people extract all the petroleum in a particular area, they have exhausted its supply permanently. However, given the vast reserves of petroleum in the world, this issue is not pressing at the moment. The second, more immediate concern is that, millions of years ago not every region of the earth had the conditions necessary for the creation of oil. Consequently, today some states possess great quantities of petroleum beneath their land, while others have little or no oil within their boundaries.

While oil is composed of various organic chemicals, its principal ingredient is hydrocarbons. When exposed to high enough temperatures, these molecular chains break down to release energy. Today, people distill petroleum into its component parts, including kerosene, gasoline, and other substances. These chemicals play a crucial role in the modern military and economy, primarily as a source of power but also in other regards.

Oil Before the Twentieth Century

Human beings have used oil in one faculty or another for thousands of years. The Mesopotamians harvested bitumen (a naturally occurring product of petroleum) for use as a mortar or caulk. Craftsmen and builders sought the substance for its water-proofing properties. Physicians extolled its medicinal benefits. It could also serve as a poor source of illumination when set aflame. The Byzantines and other civilizations used bitumen in their dreaded ‘Greek Fire,’ an incendiary substance sprayed onto enemy vessels as a weapon.

It was not until nineteenth century, with advent of the science of refining, that oil became a universal product. Its initial use was as a source of kerosene. This flammable substance was excellent for use in lamps. With the first successful oil drilling operation in 1859, petroleum flooded the market. The invention of the gas-powered automobile in 1864 made use of gasoline, a byproduct of the refining process. Many years later, with its improvement and mass production, automobiles would create a major demand for oil. It was not until the First World War, however, that oil became a commodity of strategic interest.

World War I

While foreign companies drilled for oil in the Middle East and elsewhere at the beginning of the twentieth century, European governments remained aloof from these enterprises. The looming shadow of the First World War changed this mentality. In the years preceding it, England and Germany were trapped in a naval race for dominance of the seas. The British Admiralty, under Winston Churchill, sought new ways to

modernize their warships to maintain nautical superiority. One option was to engineer British boats to run on oil instead of coal. Petrol-powered ships could accelerate faster and reach higher speeds than their coal-driven counterparts. Additionally, oil was cheaper, more compact, and required less maintenance than the traditional source of fuel. In 1912, the Admiralty commissioned five oil-fired warships, followed by many more. However, the advantages of oil did not come without a price. While Great Britain possessed large reserves of Welsh coal, it had no immediate access to oil, and the military was reluctant to commit itself to an unreliable source of fuel.

That problem was solved by the Anglo-Persian Oil Company. Operating in present-day Iran, the APOC struck oil in 1908. Six years later, in an incredible financial maneuver, the British Admiralty purchased a 51% holding in the private company. With its supply of petrol secured, the navy shifted production to oil-fueled ships. Even though naval engagements did not figure prominently in World War I, the Admiralty's decision was momentous. It recognized the strategic importance of petroleum and the attendant need for the state to protect its oil interests. Furthermore, England was now dependent upon the Middle East for its survival. Without Iranian oil, it would be virtually defenseless. Many other countries would follow this precedent of government involvement and reliance in the Middle East throughout the 20th century.

After World War I, the great powers recognized the vital importance of oil.

Oil contributed to the Allied victory in World War I. In addition to Britain's navy, it fueled

After World War I, oil companies scrambled to obtain oil concessions around the world. Of particular interest was the territory of the former Ottoman empire (comprising what is today Saudi Arabia, Iraq, Syria, Lebanon, Jordan, Israel, Turkey, and the Sinai Peninsula), which had an untapped wealth of petroleum beneath its surface.

Enter the United States

Unlike most European countries, the United States was blessed with internal sources of oil. The relative self-sufficiency of the USA in the first half of the twentieth century left its government indifferent to the petrol politics in the Middle East. This attitude changed dramatically after 1941. Just as the First World War demonstrated the importance of oil to Europe, so did the Second World War for the United States. American petroleum had proved vital in the war against the Axis Powers, fueling Allied ships, transports, planes, and tanks. This revelation was underscored by the possibility of an oil shortage in the future. In 1948, increased domestic demand led the United States to import more oil than it exported for the first time ever. While the USA had enough oil for its current needs, what if the country and its allies faced another major war?

The prospect of World War III was central to American petroleum calculations. The Second World War was soon followed by the Cold War. The forty-year rivalry between the United States and the Soviet Union dominated both nations' policies on oil and the Middle East. The USA and USSR recognized petroleum as the essential commodity for war and industry, and recent geological surveys revealed that the Middle East contained incredible reservoirs of the substance. Eager to conserve domestic sources of oil as much as possible, the USA encouraged American companies to expand into the region to supply the needs of its citizens. The United States also acted to 'defend'

the countries of the Middle East from any Communist influences that might send their governments into a Soviet orbit. At stake was not only an ally, but a source of petroleum. Often the ideological fervor of the Cold War clouded the judgment of leaders on both sides. Regardless, the Middle East became a major arena for the superpower struggle.

The Iranian Coup

One of the first casualties of the Cold War in the Middle East was Mohammed Mossadegh. The populist leader became Prime Minister of Iran in 1951 on a nationalist, anti-colonialist ticket. One of his first acts in office was the nationalization of the Anglo-Iranian Oil Company, the pre-eminent symbol of Western imperialism in the eyes of his constituents. Fearful of the growing power of this popular rival, the Shah of Iran fled his country shortly. For Mossadegh and his followers, the decision to nationalize AIOC was a symbolic, nationalist one. Without the British experts to run the company, its production dropped off dramatically. For the United Kingdom, the Anglo-Iranian Oil Company was its primary source of petroleum. Its leaders were both enraged over its loss and determined to retrieve it. Great Britain facilitated the economic downturn in Iran by blockading its ports to prevent the oil from reaching customers. However, Mossadegh remained popular and even won another term in office.

While the United States initially accepted Mossadegh as a bulwark against Communism in the country, it became more suspicious as he signaled Communist leanings. Citing the domino theory, American leaders feared that Iran's defection would create a Soviet bloc out of the entire Middle East. This was an unacceptable risk to President Eisenhower. Consequently, the USA, Great Britain, and Iranian royalists launched Operation AJAX to overthrow Mossadegh and restore the Shah to power. The mission succeeded and was soon followed by a new consortium of foreign oil companies in Iran. The lesson learned by many Iranians and their neighbors was that the United States and Europe respected Middle Eastern democracy so long as it served their own economic and political interests.

The Suez Canal Crisis

The United States responded differently to another case of nationalization. Colonel Gamal Abdel Nasser came to power in Egypt in a coup in 1952. Unlike the conservative monarch he deposed, Nasser hoped to maintain neutrality in the Cold War. His other objective was the construction of a dam across the Nile, to provide electricity and irrigation for his country. Unfortunately for him, these two goals conflicted. After displaying his neutralist tendencies through recognition of Communist China and other diplomatic *faux pas*, the United States rescinded its offer to fund the Aswan Dam. In response, Nasser nationalized the Suez Canal, planning to use the income it generated to pay for dam. This action infuriated and terrified Great Britain. In addition to the loss of profits, the nationalization of the canal gave Nasser a firm grip over Europe's access to oil. Western Europe received two-thirds of its petroleum from tankers that navigated the Suez Canal. Should Nasser close the waterway, the continent would face a major energy crisis. Additionally, British leaders feared that Nasser's successful takeover could set a precedent for further acts of nationalization in other countries. Great Britain conspired with France and Israel to retake the Suez Canal in an armed invasion. This plan came to fruition in 1956.

The United States was outraged at their brash action. Fearful that European-Israeli aggression would alienate the entire Middle East and provoke a Soviet response, President Eisenhower demanded a cessation of hostilities. When the three powers refused to comply, Eisenhower engaged in financial warfare, placing economic sanctions on France and Britain and threatening an oil embargo. With an already dwindling reserve of petrol (and a sagging British pound), the two European powers complied. Israel soon joined them in withdrawing from the canal zone. However, the damage was already done. Despite the USA's defense of Egyptian sovereignty, many Arabs associated the United States with the aggression of its allies and Israel. The crisis also boosted Nasser's popularity immensely, making him the undisputed spokesman for Arab nationalism. Just as Washington feared, he drifted closer to the Soviet bloc, accepting military advisors and funding for the Aswan Dam from the USSR.

OPEC

The Organization of Petroleum Exporting Countries was founded by representatives from Iran, Iraq, Kuwait, Saudi Arabia, and Venezuela in 1960. Although the various states had discussed greater collaboration in the oil industry since 1949, these plans remained loose and theoretical until ten years later. In 1959, British Petroleum unilaterally cut the posted price of oil by a few cents. Due to an influx of cheap Soviet petrol, the official posted price (by which the exporting states calculated their share) was considerably higher than the real market price (the amount that people actually paid for oil). Within a year, the other companies followed suit. Afraid of losing control of their primary source of revenue, representatives finalized plans for an international body to regulate the flow of petroleum.

Initially OPEC met with minimal success. While it intimidated the oil companies, the organization itself was divided by political and economic rivalries. Effective cooperation on oil control was beyond its reach at the time. Also, the international environment was not yet ripe for a powerful oil consortium. The world was enjoying an oil surplus, so the ability of the five nations to manipulate its price was severely limited. The embargo against the United States and Great Britain for their support of Israel in the 1967 war failed abysmally. While Saudi Arabia, Kuwait, Libya, and Algeria stopped shipping petroleum, Venezuela, Iran, and Indonesia undercut their efforts by increasing production.

The conditions that undermined OPEC did not persist, however. Only six years later, the organization unleashed a brutal oil embargo on the West for its allegiance to Israel in the Yom Kippur War. The demand for petroleum was much greater in late 1973, and the surplus of the substance had shrunk considerably. Many countries, such as the United States, were already at full production and still needed to import oil to meet domestic demand. These conditions created a seller's market. OPEC created an oil crisis through three processes. First, it unilaterally raised the posted price of oil by 70%. Second, it reduced production of oil among its members by 5%, to be followed by monthly cutbacks of 5%. Third, it declared an embargo on all countries sympathetic to Israel. These three measures limited the global supply of oil and quintupled its market price. Panic struck the citizens of consuming countries, unsure when or if the mounting cost of petroleum would halt. Around the world, but particularly in the United States, people lined up for hours to fill up their tanks at gas stations. The embargo ended in

March of 1974, when the USA agreed to facilitate a peace between Israel and Syria. However, the high prices remained. The oil embargo also exacerbated an already weak economy and contributed to inflation in the West. The petroleum-producing countries had demonstrated their collective economic might.

The power of OPEC was fleeting. It capitalized on the panic of the Iranian Revolution of 1979 to spark another price-inflating oil crisis. However, that was the last display of its economic might. OPEC was the victim of its own price-setting scheme. It had driven the cost of oil so high that other countries began to explore new energy options. Foreign leaders looked into alternate sources of fuel, such as natural gas. They also instituted nationwide energy conservation efforts. Some countries invested in non-OPEC oil sources, while others began expensive drilling projects at home. Internal divisions also weakened OPEC. Without an Arab-Israeli war to unite them, the individual member countries soon returned to their individual struggles and vendettas. Although OPEC still exists today, it no longer wields the economic force that it possessed in the 1970s.

The Iranian Revolution and Hostage Crisis

Once again, the Shah was in trouble. His country was ill-equipped for the huge influx of money following the rise in oil prices. The Shah's programs of modernization disrupted the traditional lives of his citizens and often alienated them. Religious fundamentalism grew in popularity and fervor, stirred up by the polemics of the Ayatollah Ruhollah Khomeini. The human rights abuses perpetrated by the secret police further antagonized the Iranians. The Shah himself had cancer. Faced with rioting workers in the oil fields, the Shah fled his country to seek medical treatment in 1979, leaving a coalition government behind to rule in his name.

A revolutionary government, initially backed by Khomeini, soon overthrew this last vestige of the Shah's power. Shortly thereafter, the Ayatollah Khomeini deposed this new government to establish a theocratic state in Iran, with himself at its head. His accession to power was a huge set-back to American foreign policy in the Middle East. For many years, the Shah had served as one of the United States' staunchest allies in the region. American leaders hailed him as a modernizing reformer and a pillar of stability in the Middle East. They were happy to sell him billions of dollars worth of hi-tech weaponry to aid him in his bid for regional hegemony. Now, however, the Shah was a fugitive from the nation he once ruled and the virulently anti-Western Khomeini controlled Iran's armaments and oil.

The loss of a longtime Cold War ally was not the only casualty in the Iranian Revolution. Enraged at the USA's past complicity with the Shah and his admittance into a hospital in the United States, Iranians stormed the American Embassy in Tehran, taking its inhabitants hostage. For 444 days, the hostages languished in captivity, despite a poorly-executed rescue attempt on the part of the American government. Iran released them only after the Shah's death and President Jimmy Carter's electoral loss. The hostage crisis was less an attempt to extract some sort of ransom (although the demands were made) as a show of resistance to the United States, which had influenced Iran's policies for many decades through the Shah. The hostage crisis demonstrated – to the USA, Iranian citizens, and the world – that the new Iranian government could not be pressured so easily.

The Persian Gulf War

Many analysts hailed the end of the Cold War as the beginning of a new era of peace and security around the world. Yet within a year of the demise of that long-lasting conflict, a new one arose.

Iraq was not on good terms with its neighbor Kuwait. It had long asserted that it had a rightful claim to the small country. More recently, during the Iran-Iraq War, Kuwait had lent Iraq vast amounts of money to help fund its ailing economy. Now the Kuwaiti government wanted to be repaid. There was also the matter of oil. Furthermore, Kuwaiti oil companies had tapped into a large oil reserve, which Iraq claimed was under its sovereignty. Kuwait had been violating OPEC regulations by pumping out more petroleum than it was allotted. Kuwait increased its revenues by selling a larger volume of oil, but its higher production lowered the overall price of oil around the world, including in Iraq. Now more than ever, Iraq was dependent on its petroleum for economic survival.

In addition to these frustrations with Kuwait, the Iraqi dictator Saddam Hussein had grandiose visions for the destiny of his nation. With Iran in shambles, he saw Iraq as the next great power in the region. By seizing the oil-rich Kuwait, Iraq would control a fifth of the world's oil reserves. Hussein would also be in a prime position to invade Saudi Arabia and further consolidate his hold on the oil market. He hoped to translate this newfound wealth of petroleum into a superior military. Even if Hussein did not seek in creating a Pan-Arab state under his dominion, he would be able to attack the Western economy by manipulating oil output. The first step in this plan was the annexation of Kuwait.

The international community did not respond favorably to Hussein's action. His invasion of Kuwait was met with universal condemnation. Even the Arab states, on whose behalf Hussein claimed to speak, joined in the placement of economic sanctions. The United States was quite vocal in its criticism, no doubt aware of Hussein's grand aspirations. In particular, it feared an attack on its staunch ally, Saudi Arabia. America organized a global coalition to present Iraq with an ultimatum: withdraw from Kuwait or else. Hussein refused, however, hoping that the global coalition would not hold and that the Iraqi occupation would be accepted as a *fait accompli*. He even took action to undermine the solidarity of the coalition by antagonizing Israel with missile attacks. However, the alliance remained firm. In January of 1991, allied aircraft struck at Baghdad. Short-lived ground fighting ensued in Kuwait, resulting in a quick Iraqi rout. The brief Persian Gulf War demonstrated the persisting importance of oil to the world, even after the end of the Cold War.

Other resources:

Yergin, Daniel. *The Prize*. Simon & Schuster, 1991. *A massive, sprawling history of the importance of oil throughout the world. It covers in detail the major events and personalities of the oil industry since 1859 in a friendly, amiable style.*

Online:

www.OPEC.org. *The official website of the Organization of Petroleum Exporting Countries. It contains a brief overview of the oil industry and more information about each of its member countries.*

Terms:

Market Price –

Posted Price –

OPEC –

Petroleum –

Shah –

Ayatollah –

Multiple Choice Questions:

1. Which of the following statements about petroleum is true?
 - a.) It comes from naturally-occurring mineral deposits.
 - b.) It is created in a process that takes hundreds of years.
 - c.) It is a renewable resource.
 - d.) It is distributed evenly around the world.
 - e.) None of the above.

2. When did access to petroleum first become a matter of national security?
 - a.) in 1864, with the invention of the gasoline-fueled combustion engine.
 - b.) in 1912, with the British Admiralty's decision to switch to oil-powered ships.
 - c.) in 1953, with the nationalization of the Anglo-Iranian Petroleum Company.
 - d.) in 1967, with an OPEC-led oil embargo of the United States.
 - e.) None of the above.

3. Which of the following was *not* reason for the British Admiralty's decision to switch to oil-powered boats?
 - a.) Oil was cheaper and more compact than coal.
 - b.) Great Britain had large domestic reserves of oil.
 - c.) Oil allowed ships to travel at fast speeds.
 - d.) Oil-fueled engines required less maintenance.
 - e.) All of the above.

4. What act of Prime Minister Mossadegh angered the British government?
 - a.) He nationalized the Anglo-Iranian Oil Company in 1953.
 - b.) He decreased the posted price of oil in 1960.

- c.) He established a Shi'ite theocracy in Iran in 1979.
- d.) He initiated the Iran-Iraq War in 1980.
- e.) Both C and D.

5. What was the goal of the 1954 Anglo-American Operation AJAX?

- a.) To restore the Shah to power.
- b.) To restore Saddam Hussein to power.
- c.) To restore Ayatollah Khomeini to power.
- d.) To restore Colonel Nasser to power.
- e.) None of the above.

6. Why did Colonel Nasser nationalize the Suez Canal?

- a.) He wanted to hurt the American economy.
- b.) He needed its revenues to fund a hydroelectric dam.
- c.) He was a Communist who supported state-ownership of major utilities.
- d.) He was a fundamentalist Muslim who hated the British.
- e.) Both A and C.

7. What state did *not* invade Egypt in the Suez Canal Crisis of 1956?

- a.) Great Britain
- b.) France
- c.) United States
- d.) Israel
- e.) Both C and D.

8. When did an OPEC oil embargo seriously affect the global economy?

- a.) in 1967, after the Six Days' War.
- b.) in 1973, after the Yom Kippur War.
- c.) in 1980, during the Iraq-Iran War.
- d.) in 1991, after the Persian Gulf War.
- e.) Both A and B.

9. When was OPEC was founded?

- a.) in 1928, in response to the "Red Line Agreement" between the oil companies.
- b.) in 1948, in response to the creation of Israel.
- c.) in 1956, in response to the Suez Canal Crisis.
- d.) in 1960, in response to a decrease in the posted price of oil.
- e.) None of the above.

10. Which of the following was a motive for Hussein's invasion of Kuwait in 1990?

- a.) Kuwait was selling large quantities of oil, thus lowering its market price.
- b.) Iraq had lent a great deal of money to Kuwait, which defaulted on its loan.
- c.) Kuwaiti drillers had tapped into a large oil reserve, which was claimed by Iraq.
- d.) Kuwait was refusing to sell oil to the petrol-starved Iraq.
- e.) Both A and C.

11. Why did the United States oppose the Iraqi invasion of Kuwait in 1991?
- a.) The annexation would give the petrol-starved Iraq its first access to oil, making the country dangerously independent.
 - b.) The annexation would give Saddam Hussein control over a large part of the oil market, granting him greater power over the global economy.
 - c.) The annexation could possibly be followed by an invasion of Libya, an important American ally.
 - d.) The annexation would violate the mutual defense treaty signed by the United States and Kuwait.
 - e.) Both C and D.

Essay Question:

Carefully read the transcript of the debates held in the House of Commons on whether or not the British Government should purchase stock in a private oil company. What are the arguments used to support this action? What are the arguments used against it? Which do you find more compelling?

How have Middle Eastern states benefited from their oil reserves? How have these same sources of oil harmed them? Do you think that the benefits of having oil outweigh the costs for these countries?

Timeline:

- 1859 – Edwin Drake successfully drills for oil, in the United States.
- 1864 – Siegfried Marcus invents the first gasoline-powered automobile.
- 1908 – Anglo-Persian Oil Company strikes oil in present-day Iran.
- 1912 – The British Admiralty begins producing oil-powered warships.
- 1914 – The British Admiralty purchases 51% of Anglo-Persian Oil Company.
- 1928 – Oil companies promise not to seek oil concessions independently in former Ottoman territory in the "Red Line Agreement."
- 1953 – Prime Minister Mossadegh nationalizes Anglo-Iranian Oil Company.
- 1954 – Anglo-American Operation AJAX deposes Mossadegh and restores the Shah to power.
- 1960 – OPEC is founded.
- 1967 – OPEC embargoes the United States and Great Britain unsuccessfully, in response to their support of Israel in the Six Days' War.
- 1973 – OPEC successfully cuts oil production, raises prices, and embargoes the United States and other countries that supported Israel in the Yom Kippur War.
- 1974 – The OPEC embargo ends, although high prices remain.
- 1979 – The Iranian Revolution deposes the Shah and brings Ayatollah Khomeini to power, disrupting oil production and raising oil prices.
- 1980 – The Iran-Iraq War begins.
- 1988 – The Iran-Iraq War ends.
- 1990 – Iraq invades Kuwait.
- 1991 – A coalition led by the United States expels Iraqi troops from Kuwait.
- 2003 – A coalition led by the United States attacks Iraq and deposes Saddam Hussein.