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Supply, Demand and Security: The Cold War and the Transition from Coal to Oil

David S. Painter, Edmund A. Walsh School of Foreign Service, Georgetown University

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Introduction

No commodity or industry had a greater impact on the Cold War than oil. Control of oil played a vital role in establishing and maintaining US preeminence in the postwar international system. The US commitment to an open and prosperous world economy, a key element in US national security policy in the Cold War, was tied directly to oil. Oil fueled US prosperity and enabled the United States to promote the reconstruction of Western Europe and Japan while assuring their international alignment. Access to oil on favorable terms allowed Great Britain, the key US ally, to continue to play world role, especially in the Middle East. Studying oil reveals the material underpinings of US leadership in the postwar international order and highlights the relationship between markets, military power, and government policies.

Military and Economic Importance of Oil

World War II highlighted the vital role of oil in modern warfare. All the main weapons systems of World War II were oil-powered -- surface warships (including aircraft carriers), submarines, airplanes (including long-range bombers), tanks, and a large portion of sea and land transport. Oil was also used in the manufacture of munitions and synthetic rubber. Access to ample supplies of oil was a significant source of allied strength, while German and Japanese failure to gain access to oil was an important factor in their defeat.[1]

Although the development of nuclear weapons and later ballistic missiles fundamentally altered the nature of warfare, oil-powered forces, and hence oil, remained central to military

[1] See W.G. Jensen, "The Importance of Energy of Oil in the First and Second World Wars," *Historical Journal* 11 (1968): 538-54; and Daniel Yergin, The Prize: The Epic Quest for Oil, Money, and Power (New York: Simon & Schuster, 1991), part 2.

power. Despite the development of nuclear-powered warships (mainly aircraft carriers and submarines), most of the world's warships still relied on oil, as did aircraft, armor, and transport. In addition, each new generation of weapons required more oil, and more raw materials in general, than its predecessors used.[2]

In addition to being a tremendous military asset, oil also played a central role in the US economy. Oil's economic importance increased after World War II as the United States intensified its embrace of patterns of socio-economic organization premised on high levels of oil use, and Western Europe and Japan began the transition from coal to oil as their main source of energy. US annual per capita consumption of oil rose from 13.4 barrels in 1945 to 19.6 barrels in 1960 as oil increased its share of total US energy consumption from 30.5 percent in 1945 to 45 percent in 1960.[3]

The key factor in the increase in oil consumption was the continuing transformation of the US transportation system. Following World War II, automobiles, trucks, buses, airplanes, and diesel-powered locomotives replaced steam and electric-powered modes of transportation. The number of gasoline-powered motor vehicles rose from 30 million in 1945 to 58 million in 1955, and average annual consumption per vehicle increased from 641 to 790 gallons. Neglect of public transportation and dispersed housing patterns fostered by increasing suburbanization were the key factors fueling increased automobile use. In addition the nation's truck population expanded sharply as trucked increased their share of inter-city freight traffic at the expense of trains. Oil also made inroads in the residential heating market, and industries and utilities began to turn to oil. Finally, the growth of the petrochemical industry further increased the demand for oil.[4]

Before World War II, Western Europe and Japan depended on coal for around 90 percent of their energy requirments.[5] Wartime destruction, dislocation, and overuse as well as postwar

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[2] A June 1947 War Department study noted that the United States, in the event of a major war, would require substantially more oil than it had in World War II, in part due to increased numbers of jet-powered aircraft; cited in Tracy Szczepaniak, "The Dhahran Airbase: The Cornerstone of American Foreign Policy in Saudi Arabia," unpublished paper, Georgetown University, May 2006.

[3] DeGolyer and MacNaughton, *Twentieth Century Petroleum Statistics 2001* (Dallas, TX: DeGolyer and MacNaughton, 2000), 108, 110.

[4] David S. Painter, *Oil and the American Century: The Political Economy of US Foreign Oil Policy, 1941-1954* (Baltimore, MD: Johns Hopkins University Press, 1986), 98; and Owen Gutfreund, *20th Century Sprawl: Highways and the Reshaping of the American Landscape* (New York: Oxford University Press, 2004).

[5] Steven A. Schneider, *The Oil Price Revolution* (Baltimore, MD: Johns Hopkins University Press, 1983), 521, 522.

food, transportation, and other problems led to a sharp drop in European coal production after the war. Making matters worse, Soviet expansion into eastern and central Europe left the Soviet Union in control of important sources of coal in Poland and the Soviet zone of Germany and almost all of Europe's known indigenous oil reserves. Although oil accounted for less than 10 percent of Europe's total energy supply in 1947, it was only source of fuel for aviation and road haulage and an increasingly important fuel for inland and overseas shipping and railway transport. Oil was more efficient than coal, and politically more reliable because many coal miners belonged to Communist-led unions. Under these circumstances, the possibility of obtaining additional oil supplies from overseas seemed to offer a solution to the impending energy crisis.[6]

US policymakers believed that economic growth was crucial to mitigating the class conflicts that had divided European and Japanese society in the first half of the century. Economic growth and prosperity would undercut the appeal of Leftist parties, finance the welfare state, perpetuate the ascendancy of moderate elites, and sustain the cohesion of the Western alliance. By controlling access to essential oil supplies, the United States would be able to reconcile its aim of German and Japanese economic recovery and integration into a Western alliance with that of ensuring against the recurrence of German and Japanese aggression.[7]

Oil was essential to Great Britain's balance of payments and to its ability to continue to play a great power role. Oil sales were a major dollar earner, and the British also earned money from the sale of oil machinery and equipment and from their tanker fleet. The availability of sterling oil helped Britain save dollars. Although Britain imported substantial amounts of oil from US oil companies, during the 1950s the cost of British oil imports was covered by the visible and invisible earnings of the British oil industry. Ironically, one of the key roles Britain

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[6] Ethan B. Kapstein, *The Insecure Alliance: Energy Crises and Western Politics Since 1944* (New York: Oxford University Press, 1990), 49-59.
[7] Raymond Stokes, 'German Energy in the US Post-War Economic Order, 1945-1951,.' *Jornal of European Economic History* 17 (Winter 1988): 621-39; Bruce Cumings, "Japan and the Asian Periphery," *in Origins of the Cold War: An International History*, eds. Melvyn P. Leffler and David S. Painter (London: Routledge, 1994), 225, 229.

played in Cold War in this period was to defend the Middle East, the very region where it earned the bulk of the money that allowed it do so.[8]

Finally, the Soviet Union possessed extensive oil resources, but wartime damage, disruption, and overuse, transportation problems, equipment shortages, and competing priorities, hampered the postwar expansion of oil production. Nevertheless Soviet oil production expanded from 154.9 million barrels in 1945 to 509.7 million barrels in 1955. Demand grew even faster, and the Soviet Union was a net importer of oil (mostly from Romania) until 1954. Production continued to expand, reaching almost 1.1 billion barrels in 1960, and in the late 1950s, the Soviets re-entered international oil markets in order to earn the foreign exchange necessary to purchase foreign equipment and technology.[9]

Supply, Demand, and Security

The United States entered World War II with a surplus production capacity of over one million barrels per day, almost a third of US production in 1941. This margin enabled the United States, almost single-handedly, to fuel not only its own war effort but that of its allies, once the logistics of transporting the oil safely across the Atlantic had been mastered.[10]

Although there were fears during World War II that the United States was running out of oil, US domestic oil production expanded from 1.7 billion barrels in 1945 to 2.5 billion barrels in 1960. Proven reserves also increased, from 19.9 billion barrels in 1945 to 31.6 billion barrels in 1960.[11] The postwar increases in production in reserves were achieved through development of already existing fields, greatly expanding drilling efforts, and the development of off-shore oil fields in the Gulf of Mexico. Not only were more wells drilled, but they were, on average, deeper and more expensive than before the war. Discovery of new fields declined sharply after the war, especially in the largest size classes. Although the ratio of proved reserves to current consumption fell from around 11.25 in 1945 to 8.94 in 1960, the ratio of proved reserves to

[8] Steve Nash, *Anglo-American Relations and Cold War Oil: Crisis in Iran (*New York: Palgrave Macmillan, 2003), 23-24; George Philip, *The Political Economic of International Oil* (Edinburgh: Edinburgh University Press, 1994), 124-25.
[9] Jennifer I. Considine and William A. Kerr, *The Russian Oil Economy* (Cheltenham, UK: Edward Elgar), 45-86; DeGolyer & MacNaughton, *Twentieth Century Petroleum Statistics*, 7.
[10] See Yergin, *The Prize*, 371-84.
[11] DeGolyer & MacNaughton, *Twentieth Century Petroleum Statistics*, 17.

production held steady due to increased imports, barely moving from 11.5 in 1945 to 11.6 in 1965.[12]

The question of oil imports presented US policymakers with a strategic dilemma. If what would be needed in an emergency was a rapid increase in production, oil in the ground was of little use, and even proved reserves would not be particularly helpful. The need could only be filled by spare productive capacity. Too high a level of imports would undercut such capacity by driving out all but the lowest cost producers. Moreover, reliance on imports, especially from the Middle East, was risky from a security standpoint because of the chronic instability of the region and its vulnerability to Soviet attack. On the other hand, restricting imports and encouraging the increased use of a nonrenewable resource would eventually undermine the goal of maintaining spare productive capacity and preserving a national defense reserve.[13]

The President's Materials Policy Commission, appointed by President Truman in January 1951 and headed by the chairman of the Columbia Broadcasting System, William S. Paley, came down on the side of imports. The commission's report, issued in June 1952, rejected national self-sufficiency in favor of interdependence, arguing that the United States had to be concerned about the needs of its allies for imported raw materials and about the needs of pro-Western less-developed countries for markets for their products. Although the commission admitted that self-sufficiency in oil and other vital raw materials was possible, it argued that it would be very expensive, that the controls necessary to make it possible would interfere with trade, that it would undercut the goal of rebuilding and integrating Western Europe and Japan under US auspices, and that it would increase instability in the Third World by limiting export earnings. The report argued that the United States should seek to ensure access to lowest cost supplies wherever located and that private investment abroad should be the main instrument for increasing production of raw materials for US use.[14]

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[12] Painter, *Oil and the American Century*, 97; DeGolyer & MacNaughton, *Twentieth Century Petroleum Statistics*, 17, 108.
[13] Painter, *Oil and the American Century*, 99-101.
[14] President's Materials Policy Commission, *Resources for Freedom*, 5 vols. (Washington, DC: US Government Printing Office, 1952). On the PMPC, see Alfred E. Eckes, Jr., *The United States and the Global Struggle for Minerals* (Austin, TX: University of Texas Press, 1979), 175-98.

Securing Western Hemisphere Oil

Given its location, US policymakers viewed Canadian oil as part of the US strategic reserves. At the end of World War II, however, Canada produced only enough oil to meet 10 percent of domestic demand and thus had to import most of its oil requirements. This situation changed dramatically in February 1947 with the discovery of an major oil field in Alberta, followed by important discoveries in 1948, 1949, and 1953. Canadian oil production rose from 8.4 million barrels in 1945 to 191.8 million barrels in 1960, and Canada became a net exporter of oil. Almost 22 percent of production in 1960 was exported, mainly to the United States. Oil pipelines connected Canadian oil fields to the US market, and by 1965, Canada was supplying almost a quarter of US oil imports.[15]

In addition to Canada, US policymakers looked to Latin America for the to meet US requirements. US oil companies, along with Shell, dominated the oil industries of the two main oil-rich countries in Latin America, Mexico (until 1938) and Venezuela, and had smaller holdings throughout the region. Equally important, US military power assured access to these reserves. The United States was already firmly entrenched in the oil-rich Gulf of Mexico–Caribbean region before World War I for security reasons that predated oil's emergence as a strategic commodity. World War II reinforced the traditional US determination to maintain an economic and strategic sphere of influence in Latin America.

While US security interests called for the rapid and extensive development of Mexico's nearby reserves, US policymakers feared that assistance to Mexico to achieve that goal could be seen as a reward for nationalization and thus encourage other nations to take over their oil industries. Therefore the United States tried to convince Mexico to reverse nationalization and open its oil industry to foreign companies. These efforts were unsuccessful, but the United States maintained its policy of providing no assistance to Mexico's oil industry. Mexican oil production expanded gradually after World War II, but during most of the period 1945-1960, Mexican consumption outpaced production, forcing Mexico to import oil to meet domestic demand.[16]

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[15] Ed Shaffer, *Canada's Oil and the American Empire* (Edmonton, Alberta: Hurtig Publishers, 1983), 140-48; DeGolyer & MacNaughton, *Twentieth Century Petroleum Statistics*, 5, 60-61.

[16] John D. Wirth, ed. *Latin American Oil Companies and the Politics of Energy* (Lincoln, NE: University of Nebraska Press, 1985), 264.

The key tenet of US policy toward Latin America oil was to take no action that could jeopardize US access to Venezuelan oil. Venezuela allowed foreign oil companies wide latitude in developing the nation's oil, and by World War II, Venezuela was the third leading producer in the world and the leading exporter. During World War II, the US government played a major role in facilitating a settlement between the major oil companies and the Venezuelan government that resulted in a fifty-fifty profit-sharing agreement, confirmation of the companies's existing concessions, their extension for forty years, and the opening of new areas to the companies. Venezuelan oil production increased substantially and played an important role in fueling the allied war effort.[17]

Venezuelan production and exports continued to soar after the war. The United States cooperated with the nationalist government that ruled Venezuela between 1945 and 1948 as long as it did not challenge corporate control of the oil industry. The United States accepted Venezuelan demands that profits be shared equally because it viewed the social democratic Accion Democratica as a strong bulwark against communism. As the Cold War intensified, however, elements of the US government became increasingly concerned about the AD government's ability to ensure the security of oil installations against sabotage and attack, and warned that AD's nationalism represented a threat to US interests in Venezuelan oil. Although scholars have found no evidence that the United States was involved in the military coup that ousted the AD government in November 1948, the United States did not try to prevent the coup and made litte effort to pressure the Venezuelan military to restore democracy.[18]

During the 1950s, the importance of Venezuelan oil led the United States to accept and support the brutal military dictatorship that ruled Venmezuela from 1948 to 1958. Between 1950 and 1960, Venezuelan oil production increased from 547 million barrels to over a billion barrels. Forty percent of Venezuela's oil exports went to the United States, and Venezuelan oil made up over forty percent of US oil imports. In addition to repressing the oilworkers's union and granting the oil companies a free hand, the Venezuelan government granted new concessions totaling 821,000 hectares. To protect this vital source of oil, and US security officials worked

[17] Stephen G. Rabe, *The Road to OPEC: United States Relations with Venezuela, 1919-1976* (Austin, TX: University of Texas Press, 1982) 66-93; Painter, *Oil and the American Century*, 17-21.
[18] Rabe, *Road to OPEC*, 94-116; Miguel Tinker Salas, 'Staying the Course: United States Oil Companies in Venezuela, 1945-1958,' *Latin American Perspectives* 32 (March 2005), 149-56; Painter, *Oil and the American Century*, 129-35.

with the Venezuelan government to protect oil installations from sabotage and attack, and provided assistance and training to the Venezuelan military.[19]

The military dictatorship fell in January 1958 to a popular revolution. The United States recognized the new government after the main parties in the revolutionary coalition pledged to respect US investments. Later in the year, the United States supported the election of AD leader Romulo Betancourt, even though he promised to raise taxes, restrict production, establish a national oil company, and ban new concessions. US analysts believed that the AD provided a better barrier to communism than the other possibilities. Under Betancourt, Venezuelan oil production continued its upward trajectory, and Venezuela continued to supply around 40 perecent of US imports.[20]

Securing the Middle East

During World War II US policymakers began to turn their attention to the Middle East, especially to Saudi Arabia where two US firms, SOCAL and the Texas Company, held concession rights. The Middle East not only contained one-third of the world's known oil reserves, it also offered better geological prospects for the discovery of additional reserves than any other area. The report of a US government-sponsored oil mission that surveyed the Middle East in late 1943 confirmed what was already an open secret: 'The center of gravity of world oil production is shifting from the Gulf-Caribbean region to the Middle East – and is likely to continue to shift until it is firmly established in that area.'[21] Development of Middle East oil production would relieve the pressure on Western Hemisphere reserves by supplying the Eastern Hemisphere's requirements. Securing access to Middle East oil would not be easy for several reasons, including the region's distance from the United States, the involvement of rival great powers, the dynamics of regional politics, and the politics of oil withing the United States.

Under wartime conditions, the Roosevelt adminstration contemplated creating a government-owned national oil company to take over US concession rights in Saudi Arabia. It also proposed having the US government construct and own an oil pipeline stretching from the Persian Gulf to the Mediterranean as a means of securing the US stake in Middle East oil. By

[19] Rabe, *Road to OPEC*, 117-32, 196-98; Tinker Salas, 'US Oil Companies in Venezuela,' 157-61.
[20] Rabe, *Road to OPEC*, 132-37, 197-98; Tinker Salas, 'US Oil Companies in Venezuela,' 161-65; Philip, *Political Economy of International Oil*, 127-29.

the war's end, the US government had also worked out the text of an agreement with Great Britain that called for guarantees for existing concessions, equality of opportunity to compete for new concessions, and a binational petroleum commission to allocate production among the various producing countries. The deep differences that existed between the interests of domestic and international producers in the United States, coupled with the strong ideological opposition of Congress to government involvement in corporate affairs, derailed these initiatives. The only foreign oil policy on which all segments of the oil industry could agree was that the government should limit its involvement in foreign oil matters to providing and maintaining an international environment in which private oil companies could operate with security and profit.

Utilizing private oil companies as vehicles of the national interest in foreign oil did not mean that the government had no role to play. On the contrary, the policy required the United States to take an active interest in the security and stability of the Middle East. This was especially the case in Iran, where fear of Soviet expansion and determination to maintain access to the region's resources transformed US policy from relative indifference to deep concern for Iranian independence and territorial integrity.

During World War II British and Soviet forces jointly occupied Iran, while 30,000 US troops operated a supply route through Iran to the Soviet Union and American advisers assisted the Iranian government and military. Iran was economically and strategically important to the British as a key source of oil and because of its geographic position astride the lines of communication of the British Empire. The Soviet Union's interest in Iran was scarcely less vital, for Iran not only provided a back door to the Soviet Union, but did so near the Soviets' vital oil center in the Caucasus. Although the United States initially became involved in Iran due to its role as a supply route to the Soviet Union, US leaders came to view Iran as a strategic buffer between the Soviet Union and US oil interests in the Persian Gulf. In an August 1943 memorandum to President Roosevelt, Secretary of State Cordell Hull, in a thinly veiled reference to the Soviet Union, warned that 'it is to our interest that no great power be established on the Persian Gulf opposite the important petroleum development in Saudi Arabia.'[22]

Efforts by the Iranian government to attract US oil companies to balance British and Soviet influence led led to a brief, but intense, scramble for oil concession rights by the three

[21] Painter, *Oil and the American Century*, 52.

powers in the fall of 1944. When the Soviets demanded exclusive oil rights in northern Iran, the Iranian government sought to salvage the situation by postponing any decisions on oil until after the war. Following the 1944 crisis, the British concentrated on protecting their position by manipulating Iranian politics. The United States returned to the policy of focusing on Iran as a buffer zone and on getting foreign troops out of Iran. Determined to maintain some influence in this important border region, the Soviets supported separatist movements in Azerbaijan and Kurdistan, delayed withdrawing their occupation forces from northern Iran, and demanded oil rights in Iran's northern provinces. After the Iranian government promised to allow Soviet participation in oil development in northern Iran and to seek a peaceful settlement with the separatists, the Soviets withdrew their forces.[23]

The events in Iran led to a reevaluation of US policy toward the Middle East. In a lengthy report sent to President Truman on September 24, 1946, Special Counsel Clark Clifford warned that continued access to Middle East oil was threatened by Soviet penetration into Iran, and argued that the United States should be ready to use force to guard its vital interests. The Joint Chiefs of Staff reported on October 12 that it was 'to the strategic interest of the United States to keep Soviet influence and Soviet armed forces as far as possible from oil resources in Iran, Iraq, and the Near and Middle East.' As a source of oil, Iran was of major strategic importance to the United States, and its difficult terrain provided an important barrier between the Soviet Union and US-controlled oil resources in Saudi Arabia. According to the JSC, the Soviets did not have enough oil to fight a major war, and without Persian Gulf oil would have to fight an 'oil-starved war.' On the other hand, loss of Persian Gulf oil would force the United States and its allies to fight an 'oil-starved war.[24]

The strategic importance of Middle East oil influenced US policy toward Greece and Turkey as well as Iran. Although circumstances differed greatly in each country, the United States interpreted events in all three as part of a Soviet plan to dominate the eastern Mediterranean and the oil-rich Middle East. On March 12, 1947, Truman went before Congress

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[22] Painter, *Oil and the American Century*, 77.
[23] Fernande Scheid Raine, 'The Iranian Crisis of 1946 and the Origins of the Cold War,' in *Origins of the Cold War: An International History*, 2d ed., eds. Melvyn P. Leffler and David S. Painter (New York: Routledge, 2005), 93-111; Natalia I. Yegorova, 'The Iranian Crisis of 1945-1946: A View from the Russian Archives,' CWIHP Working Paper No. 15 (Washington, DC: Woodrow Wilson International Center for Scholars, 1996).
[24] Painter, *Oil and the American Century*, 112-13.

and pledged that the United States would resist communist expansion anywhere in the world. Although mention of oil was deliberately deleted from the president's address, concern over access to the region's chief resource played an important role in the shift in US foreign policy. The Truman Doctrine provided a political basis for active US role in maintaining the security and stablity of the Middle East.[25]

Meanwhile, strongly supported by the United States, the Iranian government had retaken control of its northern provinces and brutally crushed the separtist movements. In addition to providing economic and military assistance to Iran, the United States began looking to the shah of Iran as the main guarantor of Western interests in Iran. US support for the shah and the Iranian military was crucial to the young shah in his struggle with internal rivals for power. Then in October 1947, the Iranian parliament rejected Soviet participation in oil development. In addition to rejecting the Soviet oil concession, the Majlis forbade the granting of oil concessions to foreigners or the formation of joint stock companies with foreigners to develop Iranian oil, and specifically instructued the government 'to undertake such negotiations and measures as may be necessary to secure the national rights, in all cases where the rights of the people have been violated in respect to the natural wealth of the country including its underground resources, with special reference to the southern oil,' a reference to AIOC's concession in southern Iran.[26]

The Iranian action coupled with aid to Greece and Turkey under the Truman Doctrine consolidated the US position along the northern tier of countries that protected US interests in the Eastern Mediterranean and the Middle East. Exclusion of the Soviets from the Middle East retained the region's oil for Western recovery, and kept the Soviets short of oil for a decade after World War II. In addition, US and British strategic planners wanted to keep the Soviets out of the Middle East because the region contained the most defensible locations for launching a strategic air offensive against the Soviet Union in the event of a global war.[27] Indeed, there was a symbiotic relationship between US global strategy and oil. Following World War II, the United States adopted a "maritime" strategy of maintaining access to economically vital overseas areas,

[25] Painter, *Oil and the American Century*, 114-15.
[26] Richard A. Pfau, 'Containment in Iran, 1946: The Shift to an Active Policy,' *DH* 1 (Fall 1977), 359-72; Habib Ladjevardi, 'The Origins of US Support for an Autocratic Shah,' *International Journal of Middle East Studies* 15 (May 1983), 225-39; Painter, *Oil and the American Century*, 114-15.
[27] See Melvyn P. Leffler, 'Strategy, Diplomacy, and the Cold War: The United States, Turkey, and NATO, 1945-52,' *Journal of American History* 71 (March 1985): 807-25.

including overseas sources of vital raw materials such as oil. The strategic forces -- air and sea power -- necessary for maintaining access to overseas oil reserves were not only fungible -- that is they could be used for other purposes or in other parts of the world – they were also dependent on oil.

At the same time as the US government was announcing its determination to contain Soviet expansion in the Near East, the major US oil companies secured their position in the Middle East by joining forces with each other and their British counterparts. The centerpiece of the so-called 'great oil deals' was the expansion of ARAMCO's ownership to include Standard Oil of New Jersey and Socony-Vacuum. The result was a private system of worldwide production management that facilitated the development of Middle East oil and its integration into world markets, thus reducing the drain on Western Hemisphere reserves.[28] To help consolidate this system, the US government supported fifty-fifty profit-sharing arrangements between the major oil companies and host governments. Owing to provisions in the US tax code granting US corporations credits for taxes paid overseas, this solution to host-country demands for higher revenues transferred the cost of higher payments from the oil companies to the US Treasury and thus to the American taxpayer.[29]

The emerging public-private partnership in foreign oil policy underwent its first test with the Palestine issue. US officials worried that support for the creation Israel would alienate the Arab world and jeopardize US access to Middle East oil. Although the focus of US concerns over Arab reaction to the Palestine issue was Saudi Arabia and its oil, the United States was concerned about the reaction of all Arab states, including the oil transit states of Egypt, Jordan, and Syria. President Harry Truman's decisions to support the UN plan to partition Palestine in November 1947 and to recognize the new state of Israel in May 1948 went against the advice of the State Department, the military, and the newly formed Central Intelligence Agency. According to these agencies, US support for the creation of a Jewish state in Palestine would jeopardize US strategic and economic interests in the Middle East by undermining relations with the Arab world at a time when the West needed bases in the region and access to its oil for European reconstruction. The unrest resulting from the creation of Israel could provide an opening for the Soviet Union to extend its power and influence into the region and deprive the

[28] Painter, *Oil and the American Century*, 102-10.

West of access to the region's oil. US policy looked to the development of Middle East oil as a means of reducing the drain on Western Hemisphere reserves. Loss of access to Middle East oil, one study warned, would force the United States to choose between curtailing domestic consumption to make oil available for Europe and the failure of the Marshall Plan.[30]

Fear of alienating the Arab states and providing an opening for Soviet influence in the Middle East led the United States to refrain from sending troops and arms to enforce the UN decision. This strategy succeeded in minimizing the threat to US strategic and economic interests. While official relations with the Arab states suffered somewhat because of US support for Israel, the oil companies managed to maintain a degree of distance from government policy and thus escaped the burden of Arab displeasure. On the other hand, failure to enforce the UN decision led to the issue being decided through arms, with results that still haunt the region.[31]

In addition to instability in the Middle East, another obstacle to making the region's oil available for Western European recovery was the fact that US oil companies supplied approximately half of Europe's oil in 1947 and thus required payment in dollars, which were in short supply. Oil was the largest single item in the dollar budget of most Western European countries, and the sharp rise in oil prices after the war had been one of the most important factors in the deterioration of Europe's current dollar accounts.[32]

To fuel economic recovery and to prevent Western Europe from becoming dependent on the Soviets for energy, the United States sought to ensure that this critical area received the oil it needed. More than 10 percent of the total aid extended under the Marshall Plan was spent on oil, and between April 1948 and December 1951, 56 percent of the oil supplied to Marshall Plan countries was financed by the Economic Cooperation Adminstration and its successor, the Mutual Security Agency.[33]

Oil provided the basis for the automobile industry which played a key role in economic growth in western Europe and Japan. Automobile registrations, for example, rose tenfold in western Europe from 1950-1974 and at an even faster rate in Japan.[34] Oil increased its share of

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[29] Painter, *Oil and the American Century*, 165-71.
[30] Painter, *Oil and the American Century*, 116-26.
[31] Painter, *Oil and the American Century*, 126-27.
[32] Painter, *Oil and the American Century*, 155.
[33] Painter *Oil and the American Century*, 155-60; Kapstein, *Insecure Alliance*, 59-70.
[34] Jean-Pierre Bardou, Jean-Jacques Chanaron, Patrick Fridenson, and James M. Laux, *The Automobile Revolution: The Impact of an Industry* (Chapel Hill, NC: University of North Carolina Press, 1982), 197-200.

West European energy consumption from 13.5 percent in 1950 to 32.3 percent in 1960, and of Japanese energy consumption from 6.5 percent in 1950 to 39.6 percent in 1960.[35] Economic growth and prosperity in Western Europe and Japan helped foster democratization and integration of the two areas into the Western alliance. On the other hand, increased Western European and Japanese dependence on Middle East oil increased the vulnerability of these key areas to disruptions in supply.

The Nationalist Threat

The main problem facing the United States in the Middle East as the 1950s began was how to maintain and defend Western interests in the region in the context of limited military resources and declining British power. The possibility of Soviet military action against the region, while always a danger, was not an immediate concern. Rather the main threat to Western interests lay in instability and the growing anti-Western, particularly anti-British, orientation of Middle Eastern nationalism. US policymakers feared that these problems could provide an opening for the expansion of Soviet influence into the Middle East.[36]

Although the United States and Great Britain shared the goal of maintaining Western control of Middle East oil, how to deal with nationalism divided the two powers. US policymakers favored a strategy of coopting nationalists by meeting their demands for a greater share in the revenues generated by the oil industry as long as they did not threat Western access and control. The British, whose balance of payments and position as a great power were much more directly dependent on Middle East oil, distrusted nationalists and resisted nationalist demands for a greater share in oil revenues.[37] These divergent approaches shaped the US and British responses to the Iranian nationalization of the British-owned Anglo-Iranian Oil Company (AIOC) in the spring of 1951.

AIOC's Iranian operations were Britain's most valuable overseas asset, and the British feared that if Iran succeeded in taking over the company all of Britain's overseas investments

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[35] Schneider, *Oil Price Revolution*, 521, 522.
[36] Painter, *Oil and the American Century*, 172; William Stivers, *America's Confrontation with Revolutionary Change in the Middle East, 1948-83* (New York: St. Martin's Press, 1986), 4-5.
[37] Nathan J. Citino, *From Arab Nationalism to OPEC: Eisenhower, King Saud, and the Making of US-Saudi Relations* (Bloomington, IN: Indiana University Press, 2002), 2-3; Stivers, *America's Confrontation with Revolutionary Change*, 4-5.

would be jeopardized. Although the US policymakers shared British concerns about the impact of nationalization on foreign investment, they also feared that British use of force to reverse nationalization could result in turmoil in Iran that could undercut the position of the shah, boost the prospects of the pro-Soviet Tudeh party, and might even result in intervention by the Soviets at Iranian invitation. Moreover, the crisis broke out in the midst of the Korean War, making US policymakers extremely reluctant to risk another confrontation. Therefore, the United States urged the British to try to reach a negotiated settlement that preserved as much of their position as possible. The British, however, preferred to stand on their rights and force Iran to give in by organizing an international boycott of Iranian oil and attempting to manipulate Iranian politics in an effort to reverse nationalization.[38]

US efforts to mediate a settlement failed, as did less public attempts to convince the shah to remove nationalist prime minister Mohammad Mossadeq. By 1953, the oil boycott had sharply reduced Iran's export earnings and decimated government revenues. In addition, and British and US involvement in Iranian internal affairs had exacerbated the polarization of Iranian politics. Finally, the end of the Korean War and the completion of the US military build-up allowed a more aggressive posture toward Iran. Fearing that Mossadeq might displace the shah and that Tudeh influence was increasing, the United States and Britain organized, financed, and directed a coup that removed Mossadeq and installed a government willing to reach an oil settlement on Western terms.[39]

Following the coup, the US government enlisted the major US oil companies in an international consortium to run Iran's oil industry. Cooperation of all the majors was necessary in order to fit Iranian oil, which had been shut out of world markets during the crisis, back into world markets without disruptive price wars and destabilizing cutbacks in other oil producing countries. The antitrust exemption required for this strategy undercut efforts by the Department of Justice to challenge the major oil companies' control of the world oil industry on antitrust

[38] Painter, *Oil and the American Century*, 172-89; Francis J. Gavin, 'Power, Politics, and US Policy in Iran, 1950-1953,' *Journal of Cold War Studies* 1 (Winter 1999): 56-89; Steve Marsh, 'HMG, AIOC, and the Anglo-Iranian Oil Crisis,' *Diplomacy & Statecraft* 12 (2001), 143-74.
[39] See the essays in Mark J. Gasiorowski and Malcolm Byrne, eds., *Mohammad Mosaddeq and the 1953 Coup in Iran* (Syracuse, NY: Syracuse University Press, 2004).

grounds and strengthened the hand of the major oil companies whose cooperation was needed to ensure Western access to the region's oil.[40]

The new government of Iran also proved willing to cooperate with US plans to set up a regional defense organization. After Egyptian opposition had killed plans successive plans to set up a Middle Eastern Command and a Middle Eastern Defense Organization, the United States focused on creating a smaller organization limited to the 'northern tier' of countries bordering the Soviet Union plus Iraq. In February 1955, Turkey and Iran signed a defense agreement known as the Baghdad Pact. Britain joined the pact in April, followed by Pakistan in September and Iran in October. The United States, concerned about Arab, and especially Saudi, reaction did not join, though US military planners worked closely with the pact members.

While the Baghdad Pact focused on the Soviet threat, the Iranian crisis demonstrated that threats to Western access to Middle East oil could come from within the region. In July 1956 Egyptian nationalist leader Gamal Abdel Nasser nationalized the British- and French-owned Suez Canal Company. The Suez Canal was an important symbol of the Western presence in the Middle East and a major artery of international trade; two-thirds of the oil that went from the Persian Gulf to Western Europe traveled through the canal. Viewing Nasser's action as an intolerable challenge to their position in the region, the British, together with the French, who resented Nasser's support for the Algerian revolution, and the Israelis, who felt threatened by Egyptian support for guerrilla attacks on their territory, developed a complex scheme to recapture control of the canal and topple Nasser through military action.

The plan, which they put into action in late October, depended on US acquiescence and US cooperation in supplying them with oil if the canal were closed. The Egyptians closed the canal by sinking ships in it. In addition, Saudi Arabia embargoed oil shipments to Britain and France, and Syria shut down the oil pipeline from Iraq to the Mediterranean. Incensed by his allies' deception, concerned about the impact of their actions on the Western position in the Middle East, and embarrassed by the timing of the attack –just before the US presidential election and in the midst of the Soviet suppression of the Hungarian revolt – President Dwight D. Eisenhower put pressure on the British, French, and Israelis to withdraw their forces from Egypt. The United States refused to provide Britain and France with oil, blocked British attempts to

[40] Painter, *Oil and the American Century*, 192-98.

stave off a run on the pound, and threatened to cut off economic aid to Israel. The pressure worked. Following the withdrawal of Anglo-French forces, the US government and the major oil companies cooperated to supply Europe with oil until the canal was re-opened and oil shipments from the Middle East to Europe restored.

By shutting off the flow of Middle East oil to Western Europe, the Suez crisis highlighted the danger that Arab nationalism posed to US plans to use oil rebuild Western Europe and ensure its alignment with the United States. The key routes connecting Persian Gulf oil with markets in Western Europe ran through Egypt and Syria, the two states most affected by revolutionary Arab nationalism. In 1949, the United States had encouraged a military coup in Syria in order to replace an Arab nationalist government that was holding up approval of the Trans-Arabian Pipeline, which carried oil from Saudi Arabia to the Mediterranean. [41] Without access to Middle East oil, President Dwight D. Eisenhower warned in early 1957, 'Western Europe would be endangered just as though there had been no Marshall Plan, no North Atlantic Treaty Organization. The free nations of Asia and Africa, too, would be placed in serious jeopardy.' Eisenhower pledged to protect Middle East states from the Soviet Union and its regional and local allies. In addition, the United States sought to bolster its friends in the region through economic and military assistance. Quickly labeled the Eisenhower Doctrine, these policies marked the official assumption by the United States of Great Britain's imperial role as the guarantor of Western interests in the Middle East.[42]

The main thrust of US policy was to contain the radical Arab nationalism of Egyptian president Gamal Abdel Nasser. In particular, both the United States and Great Britain were concerned about Nasser's call for the Arabs to use their control of oil to further a political agenda that included Arab unity, the economic development of resource-poor Arab countries, and the destruction of Israel.[43] To counter Nasser, who received military and economic assistance from

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[41] Douglas Little, *American Orientalism: The United States and the Middle East Since 1945* (Chapel Hill, NC: University of North Carolina Press, 2002), 54.

[42] Dwight D. Eisenhower, Special Message to the Congress on the Situation in the Middle East, January 5, 1957, *Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1957* (Washington, DC: US Government Printing Office, 1958), 8; Salim Yaqub, *Containing Arab Nationalism: The Eisenhower Doctrine and the Middle East* (Chapel Hill, NC: University of North Carolina Press, 2004).

[43] See Gamal Abdel Nasser, *The Philosophy of the Revolution* (Buffalo, NY: Economica Books, 1959), 71-74; Citino, *From Arab Nationalism to OPEC*, 121-37.

the Soviet Union, the Eisenhower administration sought to bolster conservative Arab regimes and reinforce their pro-Western alignment.

The formation of the United Arab Republic in early 1958, joining Syria and Egypt seemed to give Arab nationalism the 'stranglehold' over access to Middle East oil that US and British policymakers had long feared.[44] To make matters worse, the pro-Western monarchy in Iraq was overthrown in a bloody revolution in July. US leaders initially feared that Nasser, and behind him, the Soviet Union, had inspired the coup. The United States did not intervene militarily, however, believing that such action would be counterproductive. The coup had wiped out the royal family in Iraq, and Western intervention could easily radicalize the revolution and inflame the whole region. The British, who had initially wanted to intervene in Iraq also backed away from intervention after assessing the danger to their oil interests from either Western or Turkish intervention.[45] Instead, the United States and Britain sent troops to Lebanon and Jordan, respectively, and to the Persian Gulf to secure the Western position in the region and protect Western access to its oil.[46]

Rather than increasing the threat from Arab nationalism, the Iraqi Revolution exacerbated divisions within the Arab nationalist movement that reduced its threat to Western interests in the region. Although Nasser was popular in Iraq, Gen. 'Abd al-Karim Qasim, who emerged as the leader of the revolution, distanced himself from Nasser and turned to the Iraq Communist party for support. Relations between Qasim and Nasser deteriorated, and Nasser began issuing warnings that Iraq was becoming a tool of the Soviet Union and was undermining Arab unity. From the US standpoint, either Arab nationalist or Soviet control of Iraq was a threat to US and Western interests. Communist control of Iraq, an intelligence estimate warned in February 1959, would put Soviet influence into the heart of the Middle East, bypassing Turkey and Iran. Soviet or Arab nationalist control of Iraq could also threaten Western oil interests and even lead to the nationalization of the Iraq Petroleum Company. Viewing Nasser as the lesser of two evils, the United States decided to let Egypt take lead in opposing communism in Iraq. The British

[44] Citino, *From Arab Nationalism to OPEC*, 140; US Department of State, *Foreign Relations of the United States, 1958-60*, vol. 12: *Near East Region; Iraq; Iran; Arabian Peninsula* (Washington, DC: US Government Printing Office, 193), 48-54, 64-71 (hereafter *FR*).
[45] Citino, *From Arab Nationalism to OPEC*, 152-56; *FR, 1958-60*, 12: 81-84, 87-93, 102, 325-26, 329.
[46] Citino, *From Arab Nationalism to OPEC*, 140-41.

believed that Nasser was a greater threat, but recognized that revolutionary Iraq under Qasim split the Arab nationalist movement, undercutting its threat to western oil access. [47]

In 1959 relations between Iraq and the owners of the Iraq Petroleum Company (BP, Shell, Standard Oil of New Jersey, Standard Oil of New York, and CFP) began to deteriorate. Iraq demanded that IPC return the rights to acreage where the company held exclusive rights to explore and produce oil, but had not developed. IPC's owners were unwilling to give up so much of their concession area, and Qasim reacted by breaking off negotiations in the summer of 1961. On December 11, 1961, he proclaimed public law 80, which took back almost all of the acreage the companies had acquired but never developed. PL 80 did not affect the oil fields that were already developed.

Although Iraq's demands presented problems, the Iraq Petroleum Company's owners, the exception of the French-owned CFP, had interests in other Middle East production and did not need Iraqi oil. Indeed, holding production in Iraq down made it easier for these companies to make room for increased production in other countries. In addition, changes in the world oil market also undercut the power of oil producers like Iraq to gain higher revenues.

Beginning in the mid-1950s, increasing numbers of smaller, mostly U.S.-owned companies challenged the majors' control over the world oil economy by obtaining concessions in Venezuela, the Middle East, and North Africa. Drawn by the lure of high profits, aided by the increasing standardization and diffusion of basic technology and the security provided by the Pax Americana, and unconcerned about reducing the generous profit margins available in international markets, the newcomers cut prices in order to sell their oil. Pressure from the production of these companies, coupled with the reentry of Soviet oil into world markets in the late 1950s, exerted a steady downward pressure on world oil prices.

Some Middle East oil made its way into the United States, and, more importantly, Middle East oil displaced Venezuelan oil from European markets and led to an increase in US oil imports with consequent pressure on prices and high-cost domestic producers. Net imports rose from 2.4 percent of domestic demand in 1948 to 16.84 percent in 1960.[48]

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[47] Citino, *From Arab Nationalism* to OPEC, 146-50, *FR 1958-60*, 12: 114-34, 375-77, 381-88.
[48] Douglas R. Bohi and Milton Russell, *Limiting Oil Imports: An Economic History and Analysis* (Baltimore, MD: Johns Hopkins University Press, 1978), 22-23.

Rising oil imports led to demands by domestic producers and the coal industry for protection against cheaper foreign oil. After attempts to implement voluntary oil import restrictions failed, the Eisenhower administration, in March 1959, imposed mandatory import quotas, with preferences given to Western Hemisphere sources. Although the Mandatory Oil Import Program (MOIP) constrained demand somewhat through higher prices, in the longer run the result was to make the United States more dependent on oil imports because the restrictions meant that increases in US consumption were met mainly by domestic production. US oil import restrictions also put downward pressure on world oil prices by limiting US demand for foreign oil.[49]

In September 1960, following two rounds of cuts in posted prices (the price on which government revenues were calculated) by the major oil companies, the oil ministers of Iran, Iraq, Kuwait, Saudi Arabia, and Venezuela met in Baghdad and formed the Organization of the Petroleum Exporting Countries (OPEC). Although OPEC eventually gained power over pricing in the 1970s, its formation, as Nathan Citino has pointed out, 'deprived Arab nationalism of its most potentially radical implications.' In effect, the formation of OPEC subordinated the broader Arab nationalist agengda of using 'Arab oil' for the benefit of all Arab states to the narrower economic goal of protecting the revenues of the major oil producing countries --, including Venezuela and Iran -- by securing the best possible terms within the postwar petroleum order.[50]

The Arab reaction to the Iraqi threat to Kuwait in 1961 further underlined how divisions among the Arab states defused the threat from Arab nationalism. In June 1961, shortly after Britain turned over sovereigty to Kuwait, Qasim revied Iraq's claim to Kuwait, claiming that it was a province of Iraq. Kuwait was the third largest oil producer in the world (after the United States and Venezuela) and the largest single supplier of oil to Britain. Kuwaiti oil could be purchased in sterling, and this combined with BP's 50 percent stake in the Kuwait Petroleum Company and the £300 million in Kuwaiti government investments in Britain, made the small nation very important to Britain's international financial position. The British, with strong backing from the Kennedy administration, took the lead in opposing Iraq's claim and sent troops

[49] See Richard H.K. Vietor, *Energy Policy in America: A Study of Business-Government Relations* (New York: Cambridge University Press, 1984), 91-115.
[50] Citino, *From Arab Nationalism to OPEC*, 153, 155.

to Kuwait to deter an attack. The other Arab states opposed Iraq's claims, quickly admitted Kuwait to the Arab League, and sent an Arab League Security Forces composed of troops from Saudi Arabia, Jordan, the United Arab Republic, and Sudan to defend Kuwait. These forces, which arrived in September 1961, allowed the British to withdraw their troops, while maintaining their economic interests in Kuwait.[51]

Conclusion

Control of oil was central to US preeminence in the postwar international system. Oil was key to the revival of the world economy and to US military strategy and power. US efforts to maintain control of world oil played an important role in the Cold War as the United States sought to contain Soviet influence and combat revolutionary nationalism in the Third World

By 1962, the Middle East, and the postwar petroleum order, seemed secure. Economic growth in Western Europe and Japan, fueled in part by cheap oil, helped maintain the alignment of these key areas with the United States in the Cold War. US supply seemed secure, domestic oil production was growing, Canada had developed into a major producer, and Venezuelan oil, despite changes in regime, remained accessible and secure. In the Middle East, the threat that Arab nationalism, either on its own or in concert with Soviet power, would force the West out of the Middle East had been contained. The break-up of the United Arab Republic in September 1960, coupled with the development of Libyan oil and supertankers that could by-pass the Suez Canal reduced the threat that Egypt and other transit states could cut Western Europe off from Persian Gulf oil.

Problems still remained, however, problems that contained the seeds of future difficulties. The Arab-Israeli Conflict continued as did the threat that it would exacerbate Arab hostility to the West, provide an opportunity for Soviet involvement in the region, and jeopardize Western access to Middle East oil. In addition, the position of the shah of Iran remained shaky. Athough lower oil prices stimulated economic growth in Western Europe and Japan, they also fueled a shift in investment to the Middle East because of the region's lower production costs. The share of Middle East oil in the world economy increased from 25 percent in 1960 to 38 percent in

[51] Nigel Ashton, 'Britain and the Kuwait Crisis, 1961,' *Diplomacy & Statecraft* 9 (March 1998), 163-91; Elie Podeh, '"Suez in Reverse:" The Arab Response to the Iraqi Bid for Kuwait, 1961-63,' *Diplomacy & Statecraft* 14 (March 2003), 103-30.

1973. US oil consumption continued to grow, and US production peaked in 1970.[52] All these factors would come together in the oil crises of the 1970s.

[52] DeGolyer & MacNaughton, Twentieth Century Petroleum Statistics, 4, 5.