Middle East Nations Gain Control of Their Oil

In the 1960s, disputes developed between the companies and the governments of the oil producing companies. These governments engaged in a major struggle with the oil companies to get a larger share of the profits and to gain greater control over the oil companies. In 1972, Iraq nationalized the big Kirkuk fields. Other countries nationalized their oil fields as well.

Since the early 1970s, the oil producing countries have had control over their oil resources. They are able to dictate prices and terms to the companies and to the countries that must import this oil.
Oil Brings Wealth

The oil producing countries have accumulated vast fortunes. Saudi Arabia's oil income in 1972 was over $2 billion. In 1981, it had grown to $100 billion. Other Arab oil-producing countries, such as Kuwait and the United Arab Emirates, have also earned billions of dollars for their oil. In addition to the oil-producing countries, other nations in the Middle East receive a substantial income from oil. Pipelines from Saudi Arabia and Iraq pass through Syria, Lebanon, and Jordan. These countries are paid a fair amount of money for the movement of oil through their territories. Oil tankers that move through the Suez Canal pay millions of dollars in tolls to Egypt annually.

In the past, much of this money was wasted on luxuries by the rulers of the oil producing nations. In recent years, oil money has been used to develop and modernize the countries of the Middle East.

Oil Companies Bring Modernization

Much of the progress and modernization in the Middle East originally centered around the oil company. When an oil company entered an area in the Middle East changes followed rapidly. Nomadic herders, drawn by attractive wages, left their flocks to work for the oil company. Complete new towns were built for workers in the oil fields. Instead of tents, workers found themselves living in concrete homes. Many received wages for the first time and bought goods they could never have afforded before. Companies like ARAMCO established schools for workers and their children. Technical training was provided for the workers as well as free medical care. The companies played a major role in building railroads and highways, clearing ports, and constructing hospitals and housing developments. Since most of the oil produced in the Middle East is also refined there, oil refineries were built that provided thousands of people with jobs.

Kuwait and Saudi Arabia

Since the 1970s, with so much oil money flowing in, the governments of the oil producing countries spent large sums on local development projects. Kuwait is a good example. This tiny country has had one of the highest per capita incomes in the world. The government provides for the health and welfare of its people almost from the moment they are born. Great sums of money are spent on education. Kuwait City, located in the middle of the desert, was converted into a modern city with broad avenues, steel and glass buildings, and thousands of automobiles. The government of Saudi Arabia has spent hundreds of billions on roads, schools, industrial plants, telecommunications networks, hospitals, and other major facilities. An example is the industrial city of Jubail, completed in 1986. It was built on 340 square miles of what was a barren desert only a decade ago. It has hotels, an airport, highways, schools, mosques, shopping centers, a hospital, and a number of industrial plants. The government of Saudi Arabia provides scholarships for study abroad. Thousands of people who have benefited from these scholarships are now working in the government and in business. At the Petroleum College young people are trained as engineers. Tuition, board, and study materials are free, and Saudi Arabian students receive a monthly stipend (payment for expenses).
Oil and International Politics

Since the 1970s, oil has become a very important factor in international politics. Western Europe depends on the Middle East for most of its oil. This dependence influences the way the nations of Europe act in their relations with the Middle Eastern nations. Japan is also very dependent on oil from the Middle East. Japan’s relations with Israel and the Arabs is greatly influenced by this dependence. As for the United States, the supply of oil from the Middle East has been less important than it is for Europe, although the United States imports 50 percent of its oil. The Arab states of the Middle East therefore have been in the position to use oil as a “weapon” by limiting or halting supplies.

OPEC and the “Oil Weapon”

Since 1973, the Organization of Petroleum Exporting Countries, or OPEC, has become a powerful force in global politics and economics. OPEC is made up of the major oil producing countries in the world, including nations in the Middle East, Africa, and South America. The organization was formed in the early 1960s to give the oil producing nations a means of coordinating their policies. If these nations worked together, it was believed that they could get the best deal for their oil.

In June 1967, just after Egypt, Syria, and Jordan were defeated by Israel in the Six-Day War (discussed later in this unit), the Arab nations imposed an oil embargo against the United States, Israel, and its allies in Western Europe. They hoped that this would pressure Israel into withdrawing from the Arab areas it had captured in the war. However, since many nations continued to sell their oil, the embargo was a failure. The Arabs realized that oil could be an effective political weapon only if all the producers, including non-Arab nations, acted together.

Two days after the Arab-Israeli War of 1973 began, the Arab oil producers ordered a 25 percent cutback in production and a total embargo against the United States and Holland because of their support for Israel. This created a critical shortage of oil in the world. As the countries competed for the oil that was available, OPEC raised the price of oil from $2.50 a barrel to $10 a barrel. The cutback in production as well as the embargo lasted several months. Western Europe and Japan were badly hit and oil rationing went into effect. Many difficulties were experienced in the United States as well.

The countries that were most seriously affected by the increase in oil prices were the nations of the Third World. Most of the countries in Asia and Africa have to import almost all of their oil. Since their cash reserves are extremely limited, many industrial development projects were cancelled and food production slowed down. The Arab oil producers had promised to set up a special fund using their surplus petrodollars (money received for oil) to aid the developing countries but not much was done. Until 1973 most of the African countries enjoyed a very good relationship with Israel. During the Arab-Israeli War they broke relations with Israel, hoping to win the favor of the Arabs and oil benefits as well. But they received very little in return.

The possibility of an embargo forced the industrialized countries to search for new sources of energy. The United States turned to the Alaska pipeline as one possible answer. After the 1979 oil price crisis, President Carter promoted a comprehensive energy pro-
gram to reduce oil imports. British Petroleum and other companies speeded up their development of fields under the North Sea. It was hoped that oil from the North Sea would make Britain and the Scandinavian countries almost completely independent of Arab oil.

### WORLD OIL RESERVES

<table>
<thead>
<tr>
<th>Region</th>
<th>Bilions of Barrels</th>
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</thead>
<tbody>
<tr>
<td>Southeast Asia</td>
<td>15.7</td>
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<tr>
<td>Western Europe</td>
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</tr>
<tr>
<td>China</td>
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<tr>
<td>United States</td>
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<tr>
<td>Africa</td>
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</tr>
<tr>
<td>Former Soviet Union</td>
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<tr>
<td>Latin America</td>
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</tr>
<tr>
<td>Middle East</td>
<td>587.1</td>
</tr>
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</table>

% are % of world's total reserves

Source: Encyclopedia Britannica Book of the Year 1991

### WORLD OIL PRODUCTION

<table>
<thead>
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<th>Region</th>
<th>Millions of Barrels</th>
</tr>
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<td>Western Europe</td>
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<td>China</td>
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<tr>
<td>United States</td>
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<tr>
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<tr>
<td>Former Soviet Union</td>
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<tr>
<td>Latin America</td>
<td>6.5</td>
</tr>
<tr>
<td>Middle East</td>
<td>12.5</td>
</tr>
</tbody>
</table>

% are % of world's total production

Source: Encyclopedia Britannica Book of the Year 1991

### OPEC's Power in the 1970s

During the 1970s, the price of oil continued to increase. The power of OPEC grew and the oil-producing Arab countries grew richer and more powerful. With their oil money, Arabs bought numerous corporations, banks, and real estate properties in Western Europe and, to a lesser degree, in the United States. The Arabs also spent billions of dollars on weapons, building up huge arsenals.

### The Oil Crisis of 1979

During 1979, there was another oil price crisis as the price of oil produced by members of OPEC more than doubled. The following shows the increase in the price of oil from Saudi Arabia:

<table>
<thead>
<tr>
<th>Date</th>
<th>Price per Barrel</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 1978</td>
<td>$12.70 per barrel</td>
</tr>
<tr>
<td>June 1979</td>
<td>$18.00 per barrel</td>
</tr>
<tr>
<td>December 1979</td>
<td>$24.00 per barrel</td>
</tr>
</tbody>
</table>

Other OPEC members charged even more by the end of 1979. Iran’s price was $28.50 per barrel and Libya’s was $34.70. Part of the reason for these enormous increases was that the revolution in Iran had cut off oil exports for many months. The shortages caused panic buying and the members of OPEC took advantage of the situation to raise their prices. For the first time, prices for gasoline rose above $1.00 per gallon in the United States. During 1980, prices continued to rise. At the OPEC meeting in December 1980, a maximum price of $41 per barrel was set. The effect of these price increases was very serious. In the indus-
tralized countries the increases resulted in high inflation, which in turn led to unemployment and lower growth in demand for imports. Third-world countries suffered also as demands for their exports fell and the prices they paid for oil rose.

By the end of 1980, the major characteristic of the Middle East was its oil wealth. It seemed that Arab banks and Arab money would play a vital role in world affairs. During the 1980s this situation changed dramatically.

The price of oil, as the price of most other things, is determined largely by supply and demand. When supply is low and demand is high, prices go up. However, when the supply is greater than the demand, prices go down. The problem for OPEC throughout the 1980s was that there was a worldwide oversupply of oil—an oil glut—that was far greater than the demand. The decline in the demand for oil was caused by several factors. The high prices of the 1970s led to worldwide conservation. Several mild winters in Western Europe and the United States reduced the demand for home heating oil. The economic recessions in the United States and in many other nations during the early 1980s and again in the late 1980s caused these economies to reduce their consumption of petroleum and petroleum products.

Some oil-producing countries began to sell their oil below the official OPEC prices. As a result, OPEC lowered the official price from $34 a barrel to $29 a barrel in 1983. However, OPEC members continued to quarrel over prices and over how much oil to produce. Finally, they agreed to place a ceiling (a maximum amount) on total OPEC oil production. Each member country was assigned a quota—the amount that it was allowed to produce. It was hoped that the cut in production would reduce the oversupply of oil in the world and this would cause prices to stabilize and eventually to go up.

Saudi Arabia reduced its oil production substantially. But most of the other OPEC members produced more oil than their quotas and some countries sold their oil below the official OPEC price. Consequently, the oversupply of oil continued.

By following the OPEC agreement alone, Saudi Arabia suffered a serious drop in oil revenues from $100 billion in 1981 to $19 billion in 1986. The Saudis decided to increase their production. In December 1985, lead by Saudi Arabia, OPEC decided to abandon its policy of trying to maintain prices by limiting production. By March 1986, the price of oil had fallen to below $10 a barrel. As a result, OPEC member countries promised not to go above their production quotas. Since 1987, OPEC has tried to maintain the price of oil at $18 a barrel. However, with OPEC members continuing to produce above their quotas and non-OPEC countries producing at high levels, there continues to be an oversupply of oil in the world.

Iraq Invades Kuwait

Iraq’s invasion of Kuwait in August 1990 and the resulting uncertainty over the supply of oil caused the price of crude oil to increase rapidly. By October 1990, prices had reached $40 a barrel, compared with about $22 at the time of the invasion. The close down of the Kuwaiti oil industry, combined with the embargo and blockage of Iraq, removed more than 4 million barrels of oil a day from the world’s supply. However, no actual oil shortage developed. World supplies were high and other oil producing countries increased their production. By December 1990, the price of a barrel had dropped to the mid-$20 range.

In February 1992, OPEC oil ministers met in Geneva to discuss the problem of the oversupply of oil and low prices. Since November 1991, oil prices had fallen by 20 percent to about $16 a barrel. This sharply reduced the income of OPEC countries and hurt their economies. The OPEC ministers agreed to cut production in order to raise prices.
Prospects for the Future

In the early 1980s, OPEC members believed their problems were temporary. However, in recent years there have been major oil discoveries outside the Middle East. In 1988, the Soviet Union announced that an oil field near the Caspian Sea had been evaluated as one of the world’s largest. In the same year, Brazil discovered the world’s largest offshore oil field. This could make Brazil an oil exporter in the 1990s. Important new oil discoveries continue to be made in the North Sea. Continued improvements in the technology for locating and producing oil at ever greater ocean depths add to the prospects of large supplies of oil in the future.

This is good news for the United States and other nations who import oil. Since the United States now imports 50 percent of its oil, oil prices are of great concern to Americans. But as more oil is produced all over the world, Middle Eastern countries will no longer be able to use oil as a “weapon.”

The Arab-Israeli Conflict: The Israeli Side

The Jewish Dream: A Homeland in Israel

The roots of the Jewish people in the Middle East are very ancient. When Moses led the Hebrews out of slavery in Egypt to find the “promised land,” their history as a nation began. In 70 A.D. the Jewish state came to an end when the Romans destroyed Jerusalem. Many Jews left Palestine and settled in other parts of the Middle East, North Africa, and Europe. But the Jews regarded Palestine (Israel) as their true homeland and prayed that they would one day return to their ancient land.

Those Jews who settled in Europe often found life very difficult. In some countries Jews were able to participate in commerce, banking, and the professions. But in most countries restrictions were placed upon them. They were forbidden to own land, hold political office, or enter many professions. In many countries the Jews could only live in areas that were set aside for them, known as ghettos. In addition, they were forced to pay heavy taxes and even wear special garments to identify them as Jews. The main reason for this discrimination was that the Jews wanted to preserve their religion and traditions. They resisted efforts to convert them to Christianity. Also, the Jews were a minority in the Christian countries in which they lived. As a minority they became a convenient scapegoat (target) for whatever problems existed. During bad times, feeling against them reached such a pitch that they were tortured and massacred. The situation was particularly bad in Russia, where the Jews were ordered to live in ghettos in a specific region and could not move to the large cities. Periodically, there were pogroms in which hundreds of homes were looted and burned and many people were killed.

The Zionist Movement

Toward the end of the 19th century there was a great increase in antisemitism in Europe. Many Jews came to believe that the only solution was to have a land of their own. During the 1880s, some Jews left Russia to settle in Palestine, which was then part of the Ottoman Empire. In the 1890s, Theodore Herzl, an Austrian Jew, wrote a pamphlet called The Jewish State. This was the beginning of the Zionist movement. Zion is the name of one of the hills
in Jerusalem and it became the symbol for the land of Israel. A Zionist is a person who wishes to have a Jewish homeland in Israel. Zionist organizations were set up in many countries and money was raised. Small groups of Jewish pioneers began to settle in Palestine, where they were determined to create a new way of life. Land was purchased from the Turks and as more people came, towns and cities grew.

The British and Palestine

During World War I, the British Foreign Secretary Lord Balfour issued a document that has become known as the Balfour Declaration. This document stated that Britain would “view with favor the establishment in Palestine of a national home for the Jewish people…” At the same time, however, the British made promises to Arab leaders about the future of the Arab provinces of the Ottoman Empire. At the end of the war, with the defeat of the Ottoman Empire, Palestine became a British mandate. This meant that Britain was to rule Palestine until it was ready for independence.

The Arabs Protest

As Jewish immigration increased, the Arabs living in Palestine began to fear that they would soon be outnumbered. They demanded an end to Jewish immigration and the creation of an independent Arab state in Palestine. Many times the Arabs expressed their resentment through violence, attacking Jewish settlements and killing the people.

World War II

In the 1930s, Hitler’s persecution of the Jews speeded up the rate of Jewish immigration to Palestine. But just at the outbreak of World War II, in response to Arab violence, Britain severely limited this immigration. During the war, hundreds of thousands of Jews died in Nazi concentration camps. When it became known that the Nazis had killed 6 million Jews, Jewish leaders around the world began to demand the immediate establishment of a Jewish state in Palestine. The Jews felt that only by having their own country could they avoid such catastrophes in the future.

A Jewish State Is Set Up

The British realized that they could not find a solution that would be acceptable to both Jews and Arabs. Therefore, they turned the matter over to the recently created United Nations. In November 1947, the United Nations voted to divide Palestine into a Jewish state and an Arab state. The Jews accepted this solution; the Arabs did not. In May 1948, the new state of Israel declared its independence. As the British withdrew their troops, armies from six neighboring Arab states attacked Israel. Although outnumbered and fighting with inferior military equipment, the new state of Israel proved to be more than a match for the Arabs, who failed in their effort to “drive the Jews into the sea.”
Israel: A Modern, Western Democracy in the Middle East

Palestine was a barren wasteland of desert and swamps when the first Jewish settlers began to arrive in the 1880s. These early Zionists brought with them the talents and skills they learned in Europe. They drained the swamps, irrigated the deserts, and planted forests. Their hard work and technology caused the deserts to bloom. Agriculture thrived and a dairy industry developed. Today, Israel is an exporter of fruits and vegetables to Europe, the United States, and other areas.

After the creation of the state of Israel in 1948, hundreds of thousands of new immigrants arrived. Many of them were trained professionals and skilled workers. They turned to manufacturing, commerce, and trade. Their skills turned Israel into a modern, industrial state. Today, many people in Israel have a high standard of living. With the exception of the oil-rich Arab lands, Israel has the highest per capita income in the Middle East.

The Jews who settled in Israel also brought with them the ideas and ideals of Western democracy and culture. They set up a system of government that is a parliamentary democracy, similar to that of Great Britain. Freedom of speech, press, and assembly, as well as many other rights, are guaranteed and protected. In fact, Israel is the only democracy in the Middle East.

Israel, like the United States, is a nation of immigrants. Soon after its independence, Israel passed the “Law of Return.” This stated that any Jew who wished to settle in Israel would automatically become a citizen. Jews from almost every country in the world have immigrated to Israel. These people came with different languages, customs, and cultures. It was necessary to integrate them, to make them part of the new country. Special classes were set up to teach the new immigrants Hebrew, the language of Israel. The public schools and the Israeli Army brought people of different backgrounds together. They succeeded in creating a new nation, a new people—the Israelis.

During the 1980s, almost 20,000 Ethiopian Jews immigrated to Israel and since the late 1980s, Israel has absorbed over 300,000 Soviet Jews.

Israel Protects Its Independence

The Arabs refused to accept the existence of the state of Israel. They engaged in many border attacks against Jewish settlements and in terrorist acts inside Israel.

In 1956, Israel and Egypt fought a brief war in the Suez Canal area. The war was in part caused by continued guerrilla attacks from Egypt against Israeli settlements. Israel invaded the Sinai Peninsula and the Gaza Strip where the guerrillas were based. The United Nations stepped in to stop the fighting and then set up a U.N. Emergency Force (UNEF) to patrol the frontier between Israel and Egypt.

Between 1956 and 1967, the UNEF succeeded in preventing serious problems along the border between Israel and Egypt. However, there were occasional raids into Israel from Jordan and major attacks from Syria.

“The Six-Day War”—June 1967

In May 1967, President Nasser of Egypt began moving large numbers of Egyptian troops and tanks into the Sinai Peninsula. He demanded that the UNEF peacekeeping force leave