Globalizing Oil, Unleashing Capital: An International History of the 1970s Energy Crisis

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Globalizing Oil, Unleashing Capital:

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A dissertation presented
by
Marino Felipe Auffant
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Abstract

This dissertation explores the transformation of the world order during the 1970s through the prism of the First Oil Shock. It is premised on the paradox that, until 1973, successive U.S. administrations had relied on Venezuela and Canada as the country's main energy partners and had actively restricted oil imports from the Middle East. However, with the promise of Saudi petrodollars inflows, the U.S. ended these longstanding partnerships and tied its economic fate to that of the Persian Gulf. This dissertation follows this shift and its long-lasting consequences: Not only did the U.S. make itself vulnerable to the Arab oil embargo, but the First Oil Shock gave rise to the world's current monetary architecture, entangled the U.S. geopolitically in the Persian Gulf, and destabilized the Middle East by spawning the Iranian and Iraqi nuclear programs. With an interdisciplinary, multi-archival and multilingual approach, drawing from the archives of several states, corporations, and international organizations, this project argues that the 1970s Energy Crisis was a major period of transition in world order in which the U.S. lacked an overarching or coherent grand strategy, being at the mercy of decisions taken in foreign capitals and corporate boards from Caracas and Riyadh to Paris and Tehran. And yet, through ad-hoc improvisation and the consolidation of a U.S.-Saudi financial partnership, the U.S. reasserted its claim to global leadership, all while creating an opportunity for interest groups to test ideological agendas hinged upon liberalizing, deregulating, and financializing the international economy.

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The Lights of my Life

Introduction:
The World Order in Transition

"The fact of the matter is that the only way the consumers can protect themselves against what is a revolution in international finance, in international economics, is to share a common perception of the problem and to organize it."[1] – Henry Kissinger, 1974

"There is no reason why seven million Bedouins should dictate to the industrialized world on a matter of such vital importance."[2] – Henry Kissinger, 1974

The Twentieth Century presented us with some clear-cut points of transformation in the world order: the collapse of empires after World War I, the making of Cold War bipolarity and the *Pax Americana* after the Second World War, and the rise of the "unipolar moment" after the Soviet Union's collapse.[3] Other major transitions, however, were murkier: great powers did not tear each other apart, major international organizations did not come to life, no superpower crumbled—but underlying this apparent continuity, the world experienced a radical shift. The 1970s Energy Crisis, and particularly the First Oil Shock of 1973-74, is one such watershed in contemporary history. The Energy Crisis shifted the United States' attention from a previous focus on Cold War crises into a deepening geostrategic entanglement in the oil-rich Persian Gulf. It broke with America's historic oil trade protectionism, unleashing the globalization of petroleum and petrodollar flows. The Oil Shock also ushered the financialization of the global economy, moving Western growth away from industry and towards the banking sector. In the process, it dealt a final death blow to lingering hopes of returning to the Bretton Woods order, bringing about our current monetary

[1] "Minutes of the Secretary of State's Staff Meeting," January 31, 1974, *FRUS*, Vol. XXXVI, Doc. 293.

[2] "Memorandum of Conversation: Energy," February 1, 1974, *FRUS*, Vol. XXXVI, Doc. 295.

[3] For examples of how each of these moments remade the world order, see Erez Manela, *The Wilsonian Moment:Self-Determination and the International Origins of Anticolonial Nationalism* (Oxford ; New York: Oxford University Press, 2007); Odd Arne Westad, *The Cold War: A World History*, First edition. (New York: Basic Books, 2017); Hal Brands, *Making the Unipolar Moment: U.S. Foreign Policy and the Rise of the Post-Cold War Order* (Ithaca, [New York] ; London, England: Cornell University Press, 2016).

system of floating currencies under a U.S. dollar standard. As to the developing world, the Energy Crisis stirred high hopes, only to give way to tremendous disappointment: the Global South's economic rebellion eventually floundered under the burden of sovereign debt. And perhaps surprisingly, the First Oil Shock also destabilized the world's nuclear non-proliferation regime, arousing the atomic ambitions of Iran and Iraq.

This global transition was rife with paradoxes. It might be surprising to learn, for instance, that despite America's leading role in developing Saudi Arabia's oil fields since the 1930s, imports of Middle Eastern oil into the United States were negligible until the early 1970s. In fact, the U.S. favored Venezuela and Canada as its main oil partners, preferring a hemispheric and protectionist energy security strategy. It was not until after the 1973-1974 Oil Shock—when Arab oil producers placed an embargo against the United States—that the Persian Gulf rose to prominence as a key source of American oil. Hence, against all odds, the U.S. responded to Arab oil sanctions by becoming more reliant than ever on the Saudi monarchy, the very architect of the embargo.[4]

The timing of the First Oil Shock is also perplexing. The Nixon administration came to power in 1969 bent on reinforcing trade barriers to keep Middle Eastern oil out of the U.S. market. Cognizant of previous Arab efforts to carry out an oil embargo against the United States—during the 1956 Suez Crisis and the 1967 Six-Day War—Nixon ascertained that the country's economic security would rely on shielding U.S. consumers from the Middle East's geopolitical instability.[5] And yet, in 1973, Nixon abruptly abolished these protectionist barriers, bringing America's unrelenting oil demand into the global markets. The embargo thus came as a self-fulfilling

[4] U.S. Energy Information Administration, "Table 3.3a: Petroleum Trade: Overview," Monthly Energy Review, July 2022, https://www.eia.gov/totalenergy/data/browser/index.php?tbl=T03.03A#/?f=M; U.S. Energy Information Administration, "Table 3.3c: Petroleum Trade: Imports from OPEC Countries," Monthly Energy Review, July 2022, https://www.eia.gov/totalenergy/data/browser/index.php?tbl=T03.03C#/?f=M.

[5] "Memorandum From President Nixon to Secretary of Labor Shultz," March 25, 1969, *FRUS*, Vol. XXXVI, Doc. 2.

prophecy: it only took six months for Egypt and Syria to attack Israel, and for Saudi Arabia to lead an oil boycott against the Jewish state's most steadfast ally. This thus begs the question: Why did the Nixon administration abandon its western hemispheric oil partners to knowingly make itself vulnerable to the "Arab oil weapon"? And once the long-dreaded scenario of the oil embargo materialized, why did the U.S. double down on its ties with Saudi Arabia, with which it built a truly special relationship encompassing oil trade, geostrategic coordination, and financial cooperation?

Thus emerged the Energy Crisis, which brought together two separate but interrelated "oil shocks": the Arab oil producers' "supply shock" and the Organization of Petroleum Exporting Countries' (OPEC) "price shock." Indeed, when Arab states deployed their "oil weapon" to punish Israel's supporters—mixing monthly production cutbacks with targeted embargos—they amplified energy scarcity in an already tight global oil market. This, in turn, allowed OPEC to quadruple oil prices in the span of three months—destabilizing the world economy and the international monetary system. As the U.S. Ambassador Tehran put it in December 1973, "the non-Communist world [was] being shaken to its economic foundations."[6] The Eastern Bloc celebrated the West's ensuing recession as an existential crisis of capitalism itself—an omen of this economic system's imminent demise.[7] Meanwhile, Western observers panicked as they evoked the specter of the Great Depression—the most dramatic economic collapse in recent memory.[8] And yet, far from undermining the capitalist system, the Oil Shock catalyzed the liberalization, deregulation, and financialization of the global economy—what is often referred to

[6] "Telegram From the Embassy in Iran to the Department of State," December 26, 1973, *FRUS*, Vol. XXXVI, Doc. 271.

[7] This optimism, however, proved unfounded. See Michael De Groot, "The Soviet Union, CMEA, and the Energy Crisis of the 1970s," *Journal of Cold War Studies* 22, no. 4 (2020): 4–30, https://doi.org/10.1162/jcws_a_00964.

[8] "New Monetary Design," *The New York Times*, January 16, 1974.

as the rise of neoliberalism. So how did the Oil Shock prove so beneficial to global financial capital that some critics—both contemporary observers and present-day historians—have interpreted the Energy Crisis as a quasi-conspiracy for corporations, banks, politicians, and right-wing ideologues to bring about the neoliberal turn?[9]

Finally, the Energy Crisis carried with it the death and rebirth of Western cooperation, striking at the heart of the Atlantic Alliance, European unification, and North American economic integration. Coming at the height of Détente, U.S.-Soviet tensions moved into the background as the United States clashed diplomatically and economically with its allies across the so-called "Free World." Thus, between 1973 and 1974, the industrialized world grew bitterly divided, as not only France, but even Canada, Japan, and the United Kingdom openly challenged America's economic and diplomatic leadership on the world stage. Instead of coming together in a coordinated response against Arab oil cutbacks and OPEC's price hike, the Western alliance degenerated into mutual betrayals that eventually cascaded into an unbridled global scramble for the Persian Gulf's oil and petrodollars. France remarkably stood out for challenging international and European norms—from nuclear nonproliferation guarantees to monetary integration mechanisms—but it was not alone. And in the Middle East, U.S. relations with Saudi Arabia deteriorated to the brink of collapse, right as Iran pushed a relentless surge in global oil prices that shook the foundations of the global economy. Meanwhile, the North-South conflict heated up, as the developing world embarked on a crusade to decolonize the global economy and proclaimed the New International Economic Order (NIEO). The Third World thus united under the banner of anti-imperialism and international

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[9] In *Panic at the Pump*, Meg Jacobs described the conspiracy theories that emerged in the United States during the Oil Crisis, according to which the whole crisis was a "hoax" designed to enrich oil corporations. Critical historian Timothy Mitchell takes a similar stance in *Carbon Democracy*, claiming that the crisis was constructed to service U.S. elite interests. See Timothy Mitchell, *Carbon Democracy: Political Power in the Age of Oil* (London ; New York: Verso, 2011), 173; Meg Jacobs, *Panic at the Pump: The Energy Crisis and the Transformation of American Politics in the 1970s*, 1st edition. (New York: Hill and Wang, a division of Farrar, Straus and Giroux, 2016), 97–98.

economic redistribution—invigorating networks of Afro-Arab solidarity that channeled the oil weapon against the forces of colonialism and white supremacy. But fast-forward to 1976, and the West once again coalesced under the aegis of U.S. leadership, coming together to manage Globalization through new multilateral frameworks such as the International Energy Agency, the G6, and a reformed IMF. The United States and Saudi Arabia not only repaired their partnership, but they deepened it and broadened it as an enduring "special relationship." South-South solidarity, in contrast, ran increasingly hollow, as middle-income Latin American economies slid into skyrocketing indebtedness. This again begs the question: How did the Energy Crisis become a moment of opportunity for the United States to reassert its global dominance?

This work weaves these lines of inquiry into a truly global history of the First Oil Shock, demonstrating the role played by energy—and its underlying financial networks—in transforming the world order during the 1970s. It is premised on the paradox that, until 1973, successive U.S. administrations had relied on Venezuela and Canada as the country's main energy partners and had actively restricted oil imports from the Middle East. However, with the promise of Saudi petrodollars inflows, the U.S. ended these longstanding partnerships and tied its economic fate to that of the Persian Gulf. This dissertation follows this shift and its long-lasting consequences: Not only did the U.S. make itself vulnerable to the Arab oil embargo, but the First Oil Shock gave rise to the world's current monetary system, entangled the U.S. geopolitically in the Persian Gulf, and destabilized the Middle East by spawning the Iranian and Iraqi nuclear programs. With an interdisciplinary, multi-archival and multilingual approach, drawing from the archives of several states, corporations, and international organizations, this project argues that the 1970s Energy Crisis was a major period of transition in world order in which the U.S. lacked an overarching or coherent grand strategy, being at the mercy of decisions taken in foreign capitals and corporate boards from Caracas and Riyadh to Paris and Tehran. And yet, through ad-hoc improvisation and the consolidation of a U.S.-Saudi financial partnership, the U.S. reasserted its claim to global leadership, all while creating an opportunity for interest groups to test ideological agendas hinged upon liberalizing, deregulating, and financializing the international economy. Through the prism of the Energy Crisis, it thus bridges the geopolitical history of 1970s Détente with the economic with the economic history of Globalization, showing the geopolitical consequences of monetary decisions, and the economic impact of geostrategic choices.

This dissertation thus follows a series of key sub-arguments. First, it contends that, in a context of sustained demand and decreasing U.S. oil production, four key forces coalesced to bring about Nixon's decisive energy shift towards the Persian Gulf: a crisis in Venezuelan relations with U.S. oil corporations at a moment of increased OPEC assertiveness; Canada's precipitous quest for its economic independence from the United States; transnational environmentalist opposition to Alaskan oil production and its transportation to the U.S. market; and Saudi Arabia's 1972 offer to aid the U.S. by reinvesting its profits in the American economy in exchange for U.S. oil import liberalization. Nixon's sudden abolition of U.S. oil import controls, however, made the United States vulnerable to the Arab oil embargo, especially given Saudi Arabia's qualms about U.S. unconditional support for Israel. This exposed the incongruencies of U.S. foreign policy towards the Middle East, especially between America's alliance with Israel and its dependence on Arab oil.

It then shows how these contradictions only took six months to materialize—giving rise to the First Oil Shock. While Kissinger saw the 1973 Arab-Israeli War through the lenses of the Cold War, U.S.-Soviet Détente allowed for the prominence of intra-Western and North-South conflicts. I thus argue that the Arab oil embargo—initially deployed against the United States and the Netherlands—proved exceptionally effective at sowing divisions within the Atlantic Alliance, the

European Community, and within North America. Moreover, the extension of the Arab embargo to the colonialist and racist regimes in Portuguese Africa, Rhodesia, and South Africa brought the Arab League and the Organization of African Unity into a common cause against imperialism and racial discrimination—solidifying political and financial networks of South-South solidarity in a context of creeping North-South conflict. Hence, while its economic effectiveness was limited, and it did not resolve the Arab-Israeli conflict, it still was a diplomatic success for Arab oil producers: engendering a crisis in Western foreign relations, isolating Israel, and rallying the Global South behind the Arab world.

OPEC's price shock, in turn, triggered a global monetary crisis—leading to unprecedented global payments imbalances, destabilizing currencies, and derailing the post-Bretton Woods process of international monetary reform. It also brought the question of OPEC's petrodollars to the forefront of the world's attention: as oil-importing countries slid into trade deficits, OPEC was set to accumulate unprecedented surpluses with their growing petrodollar reserves—that is, dollar revenues derived from oil sales. The IMF thus began to devise mechanisms for OPEC's petrodollars to finance the rest of the world's deficits—the process that would come to be known as petrodollar recycling. In this context, the monetary crisis exacerbated the already-ongoing divisions within the Western camp, pitting Kissinger's calls for cooperative multilateralism against France's decision to "go it alone." I show that, as France sought to resolve its oil-derived trade deficits bilaterally through export drives into the Persian Gulf, it broke whatever semblance of unity remained in the industrialized world, unleashed a global scramble for OPEC's oil and dollars, and, surprisingly, spawned the controversial Iranian and Iraqi nuclear programs. Thus, responses to the monetary crisis unleashed by the Oil Shock generated long-lasting security entanglements.

Finally, after Kissinger's failure to bring oil-importing countries to cooperate, the United States joined the rush for bilateral deals, finding in Saudi Arabia an ideal partner to redress the oil and monetary problems posed by the Energy Crisis. The U.S.-Saudi partnership, undone during the embargo, was remade as a highly consequential special relationship, encompassing not only oil trade and geostrategic coordination, but also a secret petrodollar recycling agreement. Despite mutual suspicions, recriminations, and resentment between the Saudi and U.S. governments, I show how the Ford administration succeeded in channeling most Saudi petrodollars into Wall Street through the Federal Reserve Bank of New York. This turned a global energy and monetary crisis into a moment of opportunity for the United States to reassert its economic and political dominance—all the while underwriting the deregulation, liberalization, and financialization of the global economy. With its quasi-monopoly over Saudi petrodollars, the United States was able to restore Western cooperation—providing a financial safety net to its industrialized allies—while catalyzing a boom in deregulated finance. But these circumstances also revealed the limits of South-South cooperation. Despite developing countries' emboldened economic aspirations, more equitable public frameworks for petrodollar management failed—undermined by the Ford administration's uncooperativeness and the Saudi monarchy's disinterest—which forced middle-income Latin American economies to borrow from Western private banks to cover their deficits. This paved the way to the sovereign debt crises of the early 1980s and the rise of the so-called "Washington Consensus." Thus, this dissertation demonstrates the consequential role of the U.S.-Saudi oil and petrodollar relationship in bringing about the "neoliberal turn," while showing that this partnership was far from preordained—and in multiple instances, risked never seeing the light of day. Hence, it highlights the role of OPEC's policy choices in both sustaining Western economic and financial dominance over the world system, and in undermining redistributive projects such as the NIEO.

Historiography: Writing the Energy Crisis into International and Global History

This dissertation seeks to break new ground at the intersection of the histories of energy, foreign relations, and global capitalism, to bring about a truly global account of the 1970s Energy Crisis. Using oil trade—and the petrodollar flows that it generates—as a prism, it uncovers distant connections between local, national, and global processes. It does not treat oil as a mere commodity, but to use Matthew Huber's term, as the "lifeblood" of twentieth-century economies,[10] which in turn articulates interstate relationships and underlies the international financial system. During the 1970s, oil and petrodollars reshaped the international monetary system, gave birth to nuclear programs, built networks of mutual aid and solidarity, and fed into banking profits and sovereign debt. Thus, the ubiquity of petroleum provides the historian with a great connective power—uncovering linkages not only across time, space, and scales, but also between apparently distinct fields: diplomacy, monetary policy, nuclear security, international finance, environmental activism, economic development, national politics, military conflict, state-building, and identity formation.

This project's first major historiographical contribution is that of unveiling a groundbreaking shift that stands at the origins of the First Oil Shock: the globalization of oil flows during the early 1970s. The historiography has generally ignored how, in 1973, the Nixon administration liberalized U.S. oil imports, bringing the United States into the global oil markets, and producing a tectonic shift in U.S. oil trade from the Americas to the Persian Gulf. The few global histories of oil, such as Daniel Yergin's *The Prize* (1990), have such a broad scope that the

[10] Matthew T. Huber, *Lifeblood: Oil, Freedom, and the Forces of Capital* (Minneapolis: University of Minnesota Press, 2013).

abolition of U.S. oil import controls becomes a passing mention attributed to the inescapable pull of market forces. These narratives imply that, with rising U.S. oil consumption and falling domestic production, the Nixon administration had no choice but to liberate the American economy from outdated protectionist quotas.[11] Other works that analyze the Energy Crisis—such Stephen Randall's *United States Foreign Oil Policy Since World War I* (2005), Judith Stein's *Pivotal Decade* (2010), and Daniel Sargent's *A Superpower Transformed* (2015)—have picked up on this transition.[12] None, however, have explained Nixon's reasons for enacting this dramatic shift, lending it an aura of inevitability. Digging deeper, however, we discover that the U.S. government resisted importing oil from the Arab world at all costs, and that it had potentially viable policy options to preserve a protectionist system. In this sense, the U.S. turn towards the Gulf was contingent upon the collapse of alternative schemes: a preferential relationship with Venezuela, an integrated Continental Oil Policy with Canada, and the exploitation of Alaska's petroleum reserves, at a moment when multinational oil corporations and Persian Gulf states lobbied for import liberalization.

It thus takes a truly global perspective to uncover the reasons behind this momentous shift—which has since brought about America's growing entanglement in the Middle East. However, beyond the work of a few historians such as Daniel Yergin, David Painter, and Giuliano Garavini, most energy histories are geographically compartmentalized.[13] Histories of oil tend to

[11] Daniel Yergin, *The Prize: The Epic Quest for Oil, Money, & Power* (New York: Free Press, 2009), 571–72.

[12] Stephen J. Randall, *United States Foreign Oil Policy since World War I: For Profits and Security*, 2nd ed. (Montréal ; Ithaca: McGill-Queen's University Press, 2005); Judith Stein, *Pivotal Decade: How the United States Traded Factories for Finance in the Seventies* (New Haven, [Connecticut] ; London, [England]: Yale University Press, 2010); Daniel J. Sargent, *A Superpower Transformed: The Remaking of American Foreign Relations in the 1970s* (Oxford: Oxford University Press, 2015).

[13] Yergin, *The Prize*; David S. Painter, "The Marshall Plan and Oil," *Cold War History* 9, no. 2 (2009): 159–75; David S. Painter, "Oil and Geopolitics: The Oil Crises of the 1970s and the Cold War," *Historical Social Research (Köln)* 39, no. 4 (150) (2014): 186–208; Giuliano Garavini, *The Rise and Fall of OPEC in the Twentieth Century*, First edition. (Oxford: University Press, 2019).

be regionally bounded: works such as Fernando Coronil's *The Magical State* (1997) on Venezuela, Myrna Santiago's *The Ecology of Oil* (2006) on the Mexican Huasteca, Robert Vitalis's *America's Kingdom* (2007) on Saudi Arabia's Eastern Province, and Arbella Bet-Shlimon's *City of Black Gold* (2019) on the Iraqi city of Kirkuk, tend to explore a single country's oil sector at the national or local levels.[14] Other works place oil within the frame of bilateral relationships between the United States and petroleum-producing states such as Saudi Arabia, Iran, or Venezuela, including Nathan Citino's *From Arab Nationalism to OPEC* (2002), Andrew Scott Cooper's *The Oil Kings* (2012), Stephen Rabe's *The Road to OPEC* (2014), and Victor McFarland's *Oil Powers* (2020).[15]

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[14] There is a rich historiography of national and regional histories of oil, which tend to fall within the purview of energy history and area studies. For Latin America, see George D. E. Philip, *Oil and Politics in Latin America: Nationalist Movements and State Companies*, Cambridge Latin American Studies 40 (Cambridge ; New York: Cambridge University Press, 1982); Jonathan C. Brown, *Oil and Revolution in Mexico* (Berkeley: University of California Press, 1992); Fernando Coronil, *The Magical State: Nature, Money, and Modernity in Venezuela* (Chicago: University of Chicago Press, 1997); Myrna I. Santiago, *The Ecology of Oil: Environment, Labor, and the Mexican Revolution, 1900-1938*, Studies in Environment and History (Cambridge ; New York: Cambridge University Press, 2006); Miguel Tinker Salas, *The Enduring Legacy: Oil, Culture, and Society in Venezuela*, American Encounters/Global Interactions (Durham [NC]: Duke University Press, 2009). For the Middle East and North Africa, see Mordechai Abir, *Saudi Arabia in the Oil Era: Regimes and Elites: Conflict and Collaboration* (London: Croom Helm, 1988); Hazem Bablawi, *The Rentier State in the Arab World* (Berkeley: University of California Press, 1990); Jill Crystal, *Oil and Politics in the Gulf: Rulers and Merchants in Kuwait and Qatar*, 2nd ed. (Cambridge: Cambridge University Press, 1995); Kiren Aziz Chaudhry, *The Price of Wealth: Economies and Institutions in the Middle East* (Ithaca: Cornell University Press, 1997); James A. Bill and Roger Louis, eds., *Musaddiq, Iranian Nationalism, and Oil* (Austin: University of Texas Press, 1998); Bill and Louis; Dirk J. Vandewalle, *Libya since Independence: Oil and State-Building* (Ithaca, N.Y.: Cornell University Press, 1998); Ali Aïssaoui, *Algeria: The Political Economy of Oil and Gas*, The Political Economy of Oil Exporting Countries 5 (Oxford: University Press for the Oxford Institute for Energy Studies, 2001); Robert Vitalis, *America's Kingdom: Mythmaking on the Saudi Oil Frontier*, Stanford Studies in Middle Eastern and Islamic Societies and Cultures (Stanford, Calif.: Stanford University Press, 2007); Steffen Hertzog, *Princes, Brokers, and Bureaucrats: Oil and the State in Saudi Arabia* (Ithaca: Cornell University Press, 2011); Arbella Bet-Shlimon, *City of Black Gold: Oil, Ethnicity, and the Making of Modern Kirkuk* (Redwood City: Stanford University Press, 2019). For other regions, including West Africa, Southeast Asia, and the Soviet Union, see Andrew Apter, *The Pan-African Nation: Oil and the Spectacle of Culture in Nigeria* (Chicago: University of Chicago Press, 2005); Benjamin B. Smith, *Hard Times in the Lands of Plenty:Oil Politics in Iran and Indonesia* (Ithaca [N.Y.]: Cornell University Press, 2007); Peter Lewis, *Growing Apart: Oil, Politics, and Economic Change in Indonesia and Nigeria.*, 4th print., Interests, Identities, and Institutions in Comparative Politics (Ann Arbor: University of Michigan Press, 2009); Thane Gustafson, *Crisis amid Plenty: The Politics of Soviet Energy under Brezhnev and Gorbachev*, Course Book, Princeton Legacy Library 1028 (Princeton, NJ: Princeton University Press, 2014); Jeronim Perovic, *Cold War Energy: A Transnational History of Soviet Oil and Gas* (Cham: Springer International Publishing, 2017).

[15] For more of these bilateral histories, connecting oil-producing states to great powers such as the United States, Britain, and France, see Irvine H. Anderson, *Aramco, the United States, and Saudi Arabia: A Study of the Dynamics of Foreign Oil Policy, 1922-1950*, Princeton Legacy Library (Princeton, New Jersey: Princeton University Press, 1981); Mary Ann Heiss, *Empire and Nationhood: The United States, Great Britain, and Iranian Oil, 1950-1954* (New York: Columbia University Press, 1997); Simon C. Smith, *Kuwait, 1950-1965: Britain, the al-Sabah, and Oil*,

Thus, while adding depth to our understanding of petrostates' inner workings and to the place of energy in foreign policy, these works are limited in their ability to explain the confluence of distinct regional and economic trends that eventually resulted in America's embrace of the global oil markets and pivot to the Middle East.

This dissertation thus takes a decidedly international approach to explain how Venezuelan conflicts with U.S. oil corporations, Canadian economic nationalism, transnational environmental activism, Libyan militantism within OPEC, and deft Saudi lobbying coalesced into a major U.S. policy shift that was not preordained, but contingent upon a variety of decentralized decisions in foreign capitals such as Riyadh, Caracas, Tripoli and Ottawa, and in the boards of oil corporations in New York and environmentalist NGOs in Vancouver. This approach also brings economic considerations into diplomatic history: indeed, the collapse of Bretton Woods, the build-up of U.S. trade deficits, and rising inflation factored into Nixon's ultimate embrace of the Saudi monarchy. Thus, departing from much of the historiography, which tends to analyze the U.S.-Saudi relationship as being based upon oil trade and security guarantees, this dissertation argues that the 1972 Saudi promise to reinvest petrodollars in the U.S. economy tipped the scales in favor of liberalizing oil imports—which also made the United States vulnerable to the embargo.[16]

British Academy Postdoctoral Fellowship Monograph (Oxford ; New York: Published for the British Academy by Oxford University Press, 1999); Nathan J. Citino, *From Arab Nationalism to OPEC: Eisenhower, King Sa'ūd, and the Making of U.S.-Saudi Relations*, Indiana Series in Middle East Studies (Bloomington: Indiana University Press, 2002); Andrew Scott Cooper, *The Oil Kings: How the U.S., Iran, and Saudi Arabia Changed the Balance of Power in the Middle East*, 1st Simon & Schuster hardcover ed. (New York: Simon & Schuster, 2011); Hocine Malti, *Histoire secrète du pétrole algérien* (Paris: La Découverte, 2012); Stephen G Rabe, *The Road to OPEC: United States Relations with Venezuela, 1919-1976* (University of Texas Press, 2014); Victor McFarland, *Oil Powers: A History of the U.S.-Saudi Alliance* (New York, NY: Columbia University Press, 2020).

16 While in *Oil Powers*, Victor McFarland acknowledges some economic and monetary implications of the U.S.-Saudi special relationship, he remains more focused on the diplomatic and security aspects of the relationship. See McFarland, *Oil Powers*, 102–22.

This leads us to the main event that this work covers: the Oil Shock of 1973-1974, which, despite its magnitude, has received surprisingly scant historiographical attention. To be sure, prior to the 2010s, historians had mostly disregarded the historical importance of the 1970s, focusing instead on the 1960s and the 1980s as the most relevant decades for understanding the making of our times—from Civil Rights, Vietnam, and the culture wars, to the Reagan Revolution, the rise of conservatism, and the end of the Cold War. According to historian Jefferson Cowie, the 1970s were perceived as the uneventful bridge between the "post-1960s" and the "pre-1980s."[17] Over the past ten years, however, the "Global 1970s" have experienced a complete historiographical reassessment as the decade that birthed our current era of globalized and interconnected world.[18] Niall Ferguson, Charles Maier, Erez Manela, and Daniel Sargent's edited volume *The Shock of the Global* (2010) heralded this new era of intense academic interest on the 1970s among international and global historians. But despite delving into political crises, revolutions, trade, human rights, and the spread of international NGOs, *The Shock of the Global* contains no article on the global Oil Shock.[19] Along similar lines, Thomas Borstelmann's *The 1970s: A New Global History* (2012) counts no chapter on the energy crisis, despite often referring to the economic malaise that permeated the decade.[20]

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[17] Jefferson Cowie, *Stayin' Alive: The 1970s and the Last Days of the Working Class* (New York: New Press, 2010).

[18] For a recent overview of the state of the field of the history of the 1970s, see Daigle, Craig, "State of the Field: The 1970s: The Great Transformation in American Foreign Relations," *Reviews in American History* 46, no. 1 (2018): 168-76.

[19] Ferguson, Niall, Charles Maier, Erez Manela, and Daniel J. Sargent, Eds., *The Shock of the Global: The 1970s in Perspective* (Cambridge, Mass.: Belknap Press of Harvard University Press, 2010). Many lines of study suggested by this work have been undertaken by a variety of historians. For instance, for an overview of the spread of international non-governmental and intergovernmental organizations, see Iriye, Akira, *Global Community: The Role of International Organizations in the Making of the Contemporary World* (Berkeley: University of California Press, 2002); For the history of the embrace of Human Rights as an ideology by the U.S., see Keys, Barbara J, *Reclaiming American Virtue: The Human Rights Revolution of the 1970s* (Cambridge, MA: Harvard University Press, 2014).

[20] Thomas Borstelmann, *The 1970s: A New Global History from Civil Rights to Economic Inequality*, Course Book, America in the World (Princton, N.J.: Princeton University Press, 2012).

This paradox permeates the historiography of the Energy Crisis. While the First Oil Shock stands out as a major international crisis in what is now understood as a globally transformative decade, it is not only neglected, but its long-term importance remains contested. There are only a handful of works on the history of the Energy Crisis *per se*, such as Fiona Venn's *The Oil Crisis* (2002), Meg Jacobs's in *Panic at the Pump* (2016), Elisabetta Bini, Giuliano Garavini and Federico Romero's edited volume *Oil Shock* (2016), and Christopher Dietrich's *Oil Revolution* (2017).[21] Beyond these pieces, it figures prominently in broader historical surveys such as Yergin's *The Prize* (1990), Jeffry Frieden's *Global Capitalism* (2006), Giuliano Garavini's *The Rise and Fall of OPEC in the Twentieth Century* (2019), and Victor McFarland's *Oil Powers* (2020), as well as in U.S. and international histories of the 1970s such as Judith Stein's *Pivotal Decade* (2010) and Daniel Sargent's *A Superpower Transformed* (2015).[22] Foreign historiographies also cover the Energy Crisis as a turning point: in France, it marks the end of the three-decade-long post-war boom known as "*Les Trente Glorieuses,*" and in East Asia, it is understood to have undermined the "Japanese Miracle" after a decade of double-digit GDP growth.[23] But the historiography still tends to treat the Oil Shock with a certain unease: critical scholar Timothy Mitchell in *Carbon*

[21] Fiona Venn, *The Oil Crisis*, Turning Points (Longman (Firm)) (London: Longman, 2002); Rüdiger Graf, "Claiming Sovereignty in the Oil Crisis 'Project Independence' and Global Interdependence in the United States, 1973/74," *Historical Social Research (Köln)* 39, no. 4 (150) (2014): 43–69; Jacobs, *Panic at the Pump*; Elisabetta Bini, Giuliano Garavini, and Federico Romero, *Oil Shock: The 1973 Crisis and Its Economic Legacy*, International Library of Twentieth Century History 88 (London ; New York, NY: IBTauris & CoLtd, 2016); Christopher R. W. Dietrich, *Oil Revolution: Anticolonial Elites, Sovereign Rights, and the Economic Culture of Decolonization*, Global and International History (Cambridge, United Kingdom ; New York, NY, USA: Cambridge University Press, 2017); Rüdiger Graf, *Oil and Sovereignty: Petro-Knowledge and Energy Policy in the United States and Western Europe in the 1970s* (New York: Berghahn Books, 2018).

[22] Yergin, *The Prize*; Jeffry A. Frieden, *Global Capitalism: Its Fall and Rise in the Twentieth Century, and Its Stumbles in the Twenty-First*, First edition. (New York: W.W. Norton & Company, 2020); Garavini, *The Rise and Fall of OPEC in the Twentieth Century*; McFarland, *Oil Powers*; Stein, *Pivotal Decade*; Sargent, *A Superpower Transformed*.

[23] See, for instance, Patrick Castex, *Trente glorieuses, trente années de plomb, grande crise et changement d'ère: macrocomptabilité de la France, 1949-2008*, Ecrit-tic (Paris: Harmattan, 2010); Richard Katz, *Japan, the System That Soured: The Rise and Fall of the Japanese Economic Miracle* (London, New York: Routledge, 2015); Nicolas Delalande et al., "Que reste-t-il des « Trente Glorieuses » ?," *Histoire@Politique*, 2020.

Democracy (2011) dismisses it as "The Crisis that Never Happened," and in *Oilcraft* (2020), Robert Vitalis treats the crisis as a "chimera" to which the nation "overreact[ed]."[24]

These diametrically conflicting interpretations of the magnitude and historical transcendence of the Energy Crisis thus beg for urgent scrutiny. According to one historiographical strand, broadly encompassing the works of Dietrich, Garavini, Jacobs, Stein, McFarland, and Sargent, it was as an "oil revolution,"[25] in which the Third World showed its "oil power"[26] and dramatically remade American political and economic life[27] and U.S. foreign relations.[28] On the opposite end, for Mitchell and Vitalis, it was a "fiction"[29] that "never happened,"[30] or to put it more softly in Venn's words, a crisis whose "consequences proved to be less permanent or far-reaching than those originally anticipated."[31] How can we account for such diverging understandings of the events of 1973-1974?

This historiographical contention is mainly driven by the Oil Crisis's counterintuitive consequences: OPEC and the Arab world tried to assert their power against the United States, but in the long run, the U.S. reemerged overwhelmingly triumphant over them. Hence, as Venn states it, "The outcomes may not have been quite those predicted at the time."[32] The embargo did not last, the U.S. economy did not collapse, the U.S.-Saudi relationship remained in place, the Arab-

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[24] Mitchell, *Carbon Democracy*, 173; Robert Vitalis, *Oilcraft: The Myths of Scarcity and Security That Haunt U.S. Energy Policy* (Stanford, California: Stanford University Press, 2020), 14, 19.

[25] Dietrich, *Oil Revolution*; Garavini, *The Rise and Fall of OPEC in the Twentieth Century*, 217.

[26] McFarland, *Oil Powers*; Sargent, *A Superpower Transformed*, kindle location 3053.

[27] Stein, *Pivotal Decade*; Jacobs, *Panic at the Pump*.

[28] Sargent, *A Superpower Transformed*.

[29] Vitalis, *Oilcraft*, 68.

[30] Mitchell, *Carbon Democracy*, 173.

[31] Venn, *The Oil Crisis*, 203.

[32] Venn, 203.

Israeli conflict endured—all of which creates a veneer of continuity. But even Mitchell acknowledges that a radical transformation still took place: "the unravelling of Keynesian economics, attacked by market technologies developed from the mid-1970s in revitalized neoliberal think tanks."[33] For Stein, this marked a transition into our current "Age of Inequality" and its "new ethic claiming that the promotion of capital will eventually benefit labor—trading factories for finance."[34] And Dietrich also concurs on the "pyrrhic" nature of the Oil Revolution, which in its success planted the seeds of its own demise: OPEC's assertion of its economic sovereignty pushed the oil-deprived developing world into sovereign debt crises, obliterating the New International Economic Order.[35]

Thus, the underlying historiographical debate revolves around matters of expectations and intentionality. Venn implies that, for it to have been a crisis in the true sense of the word, the Oil Shock should at least have undermined U.S. power. Mitchell takes this line of reasoning even further: because it ultimately benefited American capital, then it necessarily was a manufactured pseudo-crisis that was designed to benefit U.S. elite interests. For instance, he asserts that oil companies produced discourses on scarcity—exaggerating demand and underestimating supply—to justify passing higher prices to consumers instead of reducing their profit margins. Shortages were thus the product of engineered psychological panic, hence a "fiction"—a claim echoed by Vitalis.[36] This constructed crisis thus proved beneficial to the Republican Party and its big oil, big bank, and military-industrial complex corporate donors, who, for Mitchell, purposefully seized the opportunity to lobby for environmental deregulation while channeling petrodollars into financial

[33] Mitchell, *Carbon Democracy*, 199.

[34] Stein, *Pivotal Decade*, Kindle location 100, Chapter 11.

[35] Dietrich, *Oil Revolution*, 19.

[36] Mitchell, *Carbon Democracy*, 181; Vitalis, *Oilcraft*, 68.

investments, arms sales, and windfall profits for oil corporations.[37] In this sense, he accuses Kissinger of "having helped to keep the high oil prices stable" before trying to "reap the benefits."[38] The state and the corporations thus colluded—or even co-conspired—to overturn the more egalitarian and democratic Keynesian economic order and impose the "neoliberal laws of the market."[39] Accordingly, even when trying to dismiss the reality of the Energy Crisis, Mitchell acknowledges that it turned out to be tragic for a broad set of actors: the global working classes, labor movements, the welfare state, the developing world, the Palestinians. I will argue, however, that Mitchell is implicitly acknowledging the importance and transcendence of the Energy Crisis, but he confuses effects with intentions: he asserts that, because key U.S. interest groups benefited from the crisis, then they must have purposefully constructed it.

Correlation does not imply causation, however, and the archival record reveals a very distinct picture. Kissinger, for instance, was consistently antagonistic to the U.S. oil corporations. Instead of colluding with them, he repeatedly made his conviction clear that "the oil companies are politically irresponsible and, in fact, idiots. They are concerned only with profits."[40] This goes against popular historiographical interpretations of the conduct of U.S. foreign relations—especially those of the Wisconsin School—according to which the U.S. government's main aim has been to expand the reach of American corporations and protect their interests.[41] The study of

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[37] Mitchell, *Carbon Democracy*, 186–99.

[38] Mitchell, 185.

[39] Mitchell, 173.

[40] "Memorandum of Conversation: Meeting Between Governor Love and Dr. Kissinger," August 10, 1973, *FRUS*, Vol. XXXVI, Doc. 191.

[41] For revisionist historians such as Walter LaFeber, American capitalism's rampant search for new markets drives foreign policy at all scales, from U.S. relations to small Central American countries to the conduct of the global Cold War. See Walter LaFeber, *Inevitable Revolutions: The United States in Central America*, Expanded ed. (New York: W.W. Norton, 1984); Walter LaFeber, *America, Russia, and the Cold War, 1945-2006*, 10th ed. (Boston: McGraw-Hill, 2008).

the Oil Shock instead reveals the recurring divergence between corporations' quest for profits and the American government's definition of the national interest. For instance, in both public and private conversations, Kissinger was mainly concerned with rolling back oil prices—not keeping them high—and he accused corporations of passing them to consumers with no concern about the detrimental monetary effects of the oil price hike.[42] These anecdotes serve to illustrate that, from the perspective of the Nixon and Ford administrations—as well as European and Japanese governments—the world was undergoing a profound crisis that challenged the foundations of American power and industrialized capitalism. Oil corporations' windfall profits, in this sense, do not implicate the U.S. government in conspiring to produce high prices.

Historians also tend to weigh the supply shock and the price shock differently, distinguishing the magnitude of OPEC's oil price hike—which is generally acknowledged as a source of global turmoil—from the Arab oil weapon—often described as an inconsequential paper tiger. For instance, Yergin mentions how the oil corporations were able to divert non-Arab oil into the United States to recoup the losses from the embargo—especially given America's still low dependence on imports of Arab oil.[43] Garavini also points out that the Arab oil weapon only brought global oil production down by 5%, which could be recouped through conservation measures.[44] Mitchell takes this to mean that "the embargo against the United States 'never happened,'"[45] and Vitalis, in turn, frames it as nothing but a "political theater" that cemented myths of oil scarcity that still drive U.S. foreign policy: Americans generally blamed OPEC—not the

[42] "Memorandum of Conversation: 'The Secretary's Conversation with French Foreign Minister Jobert,'" October 11, 1973, *FRUS*, Vol. XXXVI, Doc. 211.

[43] Yergin, *The Prize*, 570–95.

[44] Garavini, *The Rise and Fall of OPEC in the Twentieth Century*, 219.

[45] Mitchell, *Carbon Democracy*, 175.

Arab oil producers—for the embargo, and saw it as the source of the regional shortages and gas lines that marked that generation. Instead, Vitalis argues that America's oil scarcity was just the result of the Nixon administration's mismanagement through oil price controls and inefficient allocation mechanisms.[46]

But the relative economic ineffectiveness of the embargo, in and by itself, should not lead to its dismissal as an inconsequential event. In fact, if we analyze its geopolitical impact, the embargo was tremendously successful. Sargent, for instance, notes that fears of the embargo were sufficient to strike deep blows at the heart of the Atlantic Alliance.[47] I expand upon this to frame the embargo as a "divide and conquer" tactic that Arab states deftly employed to exacerbate the United States' pre-existing tensions with both Europe and Canada, as well as within the European Community. For instance, I show how the Arab embargo on the Netherlands forced the members of the European Common Market to choose between their ideals of unity and solidarity, and their self-interested national energy security. When they chose the latter, many observers feared that the European project was doomed. I also shed light upon a whole dimension of the embargo that the historiography has ignored: the extension of the embargo to Portugal, South Africa, and Rhodesia. If it is mentioned in passing, it is construed as punishment for these countries' alleged pro-Israeli stance.[48] However, the actual history of the embargo on Southern Africa is far more compelling: it is an untold tale Afro-Arab solidarity, in which the Arab League worked to sever Organization of African Unity's ties with Israel's, and in return, deployed its oil weapon against the colonialist and racist regimes in Portuguese Angola and Mozambique, white-minority-ruled Rhodesia, and apartheid South Africa. In this sense, the Arab oil embargo also succeeded in building anti-

[46] Vitalis, *Oilcraft*, 60–68.

[47] Sargent, *A Superpower Transformed*, Kindle location 3555-70.

[48] See, for instance Venn, *The Oil Crisis*, 19.

imperialist South-South solidarities, which then were reflected in Sub-Saharan Africa's overwhelming support for the oil producers within the United Nations. In this sense, the embargo did not just divide the West—it also brought the Global South together in another front of the "oil revolution."

In contrast to the embargo, whose impact was mostly geopolitical, I argue that OPEC's fourfold increase in the posted price of oil in 1973 had unforeseen monetary implications—and helped bring about the post-Bretton Woods monetary and financial systems. With the oil price shock, the Energy Crisis moved from concerns about security of supply towards questions of currency regimes, balance of payments, and indebtedness. In this sense, economic and geopolitical policy choices were deeply intertwined. The historiography, however, has yet to bridge the gap between the diplomatic dimensions of the Energy Crisis and the monetary and economic problems posed by OPEC's price shock. I show that the Oil Shock arose amid a contentious process of international monetary reform, which created further instability in an already-uncertain post-Bretton Woods world. At the center of IMF discussions on the world's new monetary order lay two major questions. First, would U.S. power—and its dollar—remain dominant in the capitalist economic world order, or would the Energy Crisis and global monetary reform pave the way for a new multipolarity? Second, how could oil wealth be "recycled" to redress payments imbalances as the oil-importing world slid into trade deficits and OPEC's coffers filled with petrodollars?

I have thus uncovered hidden ties between the U.S.-Saudi petrodollar relationship, the restoration of U.S. monetary dominance in the post-Bretton Woods order, and the financialization of the global economy to the benefit of Wall Street—adding to a growing literature on the petrodollar economy. Political scientist David Spiro pioneered this line of inquiry by theorizing the role of petrodollars as a tool of U.S. monetary power in *The Hidden Hand of American*

Hegemony (1999). Nonetheless, historical research on the role of petrodollars in the international system has only surged recently, with works such as William Glenn Gray's article "Learning to 'Recycle'" (2016), Dietrich's brief exploration of the IMF oil facility for petrodollar recycling in *Oil Revolution* (2017), Duccio Basosi's interrogation of a U.S.-Saudi secret petrodollar agreement in "Oil, dollars, and US power in the 1970s" (2020), and David Wight's broader exploration of the role of petrodollars in international affairs in *Oil Money* (2021).[49] But while Gray and Dietrich focus on failed recycling proposals through the European Community and the IMF, and Wight emphasizes how petrodollar recycling generated lucrative trade contracts that destabilized and militarized the Persian Gulf, I focus on the U.S.-Saudi secret agreement to recycle petrodollars through the U.S. Federal Reserve Bank of New York. I argue that this oil-petrodollar link between the United States and Saudi Arabia set the basis for a new special relationship based upon energy and monetary interdependence, in which Saudi Arabia worked to shore up the U.S. dollar and feed into Wall Street's financial boom, while the United States committed itself to continuing importing significant volumes of Saudi hydrocarbons. This allowed the United States to mend its relationship with Europe and Japan, turning the Energy Crisis into an opportunity to reassert U.S. leadership in managing an increasingly globalized and financialized economy through new collaborative frameworks such as the G-6. Unlike Mitchell, however, I do not see this victorious re-emergence of the United States from the Oil Shock in a conspiratorial light. On the contrary, it was the product of ad-hoc improvisation in a desperate bid to regain leverage over Saudi Arabia after the

[49] David E Spiro, *The Hidden Hand of American Hegemony: Petrodollar Recycling and International Markets* (Cornell University Press, 1999); William Glenn Gray, "Learning to 'Recycle': Petrodollars in the West," in *Oil Shock: The 1973 Crisis and Its Economic Legacy*, ed. Elisabetta Bini, Giuliano Garavini, and Federico Romero, International Library of Twentieth Century History 88 (London ; New York, NY: IBTauris & CoLtd, 2016), 172–97; Dietrich, *Oil Revolution*; Duccio Basosi, "Oil, Dollars, and US Power in the 1970s: Re-Viewing the Connections," *Journal of Energy History/Revue d'Histoire de l'Énergie*, no. 3 (June 2, 2020); David M. Wight, *Oil Money: Middle East Petrodollars and the Transformation of US Empire, 1967-1988*, United States in the World (Ithaca [New York: Cornell University Press, 2021).

humiliation of the embargo.[50] I thus also argue that the U.S.-Saudi petrodollar relationship paradoxically underscores the hidden hand of the state in the financialization of the global economy and the rise of free-market economics—that is, in the process generally known as the rise of neoliberalism.

Finally, this dissertation also breaks new ground in connecting oil trade and monetary policy to the generally-siloed field of nuclear history. In fact, I show that after OPEC's price shock, the French government responded by launching export drives of nuclear reactors to the Persian Gulf—the most competitive export that could redress France's oil-derived trade deficits with OPEC. This first came in the form of an oil-for-reactors bilateral deal with Iran's Shah Pahlavi, which then aroused the envy of Saddam Hussein's regime in Ba'athist Iraq. France's bilateral deals with Persian Gulf countries thus set the basis for two of the world's most controversial nuclear programs—whose origins can be traced to First Oil Shock. In this sense, if the first wave of petroleum histories linked oil to Cold War geopolitics,[51] and the second historiographical wave has uncovered the petrodollar nexus to tie oil to finance,[52] I am pushing the historiography a step further by showing how the monetary challenges presented by the First Oil Shock threatened to undermine the nuclear nonproliferation regime. This, in turn, adds to the well-established, but self-

[50] McFarland also notes the role of petrodollars in the U.S.-Saudi relationship, but he does not delve into its implications for the international monetary system. McFarland, *Oil Powers*, 185–90.

[51] David Painter stands out as a pioneer and leader in this field. See Painter, "The Marshall Plan and Oil"; Painter, "Oil and Geopolitics."

[52] Many of these works focus on the impact of the oil economy on the debt crises of the 1980s, such as Duccio Basosi, *Finanza & petrolio: gli Stati Uniti, l'oro nero e l'economia internazionale*, Secreta (Venezia: Studio LT2, 2012); C. Edoardo Altamura, "A New Dawn for European Banking: The Euromarket, the Oil Crisis and the Rise of International Banking," *Zeitschrift Für Unternehmensgeschichte* 60, no. 1 (2015): 29–51; Fritz Bartel, "Fugitive Leverage: Commercial Banks, Sovereign Debt, and Cold War Crisis in Poland, 1980–1982," *Enterprise & Society* 18, no. 1 (2017): 72–107; Carlo Edoardo Altamura and Juan Flores Zendejas, "Politics, International Banking, and the Debt Crisis of 1982," *Business History Review* 94, no. 4 (2020): 753–78,; Massimiliano Trentin, "The 1980s 'debt Crisis' in the Middle East and North Africa: Framing Regional Dynamics within the International Stage at UNCTAD," *Middle Eastern Studies* 58, no. 5 (2022): 728–47.

contained, historiography of nuclear nonproliferation—as exemplified by the work of Hal Brands, Målfrid Braut-Hegghammer, and Francis Gavin—as well as to the nascent field that connects nuclear affairs to the history of global capitalism—with major recent contributions from Jacob Hamblin, Gabrielle Hecht, and Jayita Sarkar.[53]

Approach and Sources: Uncovering Oil's Global Connections

This project takes an interdisciplinary, multi-archival, and multilingual approach to produce a truly global history of the First Oil Shock. While it refrains from U.S.-centrism, it acknowledges the United States' unparalleled influence in the conduct of global affairs, as well as its unique ability to manage the world order across multiple dimensions—whether it be through its economic competitiveness, monetary dominance, military supremacy, soft power, sway over multilateral institutions, and globe-spanning alliance system. Consequently, this dissertation keeps a necessary emphasis on U.S. decision-making—focusing on the Nixon and Ford administrations but going as far back as Eisenhower. To this end, it leverages not only the U.S. National Archives and the Presidential Library System, but also the vast amount of digital documentation contained in the *Foreign Relations of the United States* (FRUS) series—especially its two volumes on the

[53] For key works in both of these historiographical strands, see Francis J. Gavin, "Nuclear Proliferation and Non-Proliferation during the Cold War," in *The Cambridge History of the Cold War*, ed. Odd Arne Westad and Melvyn P. Leffler (Cambridge: Cambridge University Press, 2010); Hal Brands and David Palkki, "Saddam, Israel, and the Bomb: Nuclear Alarmism Justified?," *International Security* 36, no. 1 (2011): 133–66; Målfrid Braut-Hegghammer, "Revisiting Osirak: Preventive Attacks and Nuclear Proliferation Risks," *International Security* 36, no. 1 (2011): 101–32; Francis J. Gavin, *Nuclear Statecraft: History and Strategy in America's Atomic Age*, Cornell Studies in Security Affairs (Ithaca: Cornell University Press, 2012); Gabrielle Hecht, *Being Nuclear: Africans and the Global Uranium Trade* (Cambridge, Mass.: MIT Press, 2012); Jacob Darwin Hamblin, "The Nuclearization of Iran in the Seventies," *Diplomatic History* 38, no. 5 (2014): 1114–35; Francis J Gavin, "Strategies of Inhibition: U.S. Grand Strategy, the Nuclear Revolution, and Nonproliferation," *International Security* 40, no. 1 (2015): 9–46; Målfrid Braut-Hegghammer, *Unclear Physics: Why Iraq and Libya Failed to Build Nuclear Weapons*, Cornell Studies in Security Affairs (Ithaca, New York ; London, [England]: Cornell University Press, 2016); Jayita Sarkar, "U.S. Policy to Curb West European Nuclear Exports, 1974–1978," *Journal of Cold War Studies* 21, no. 2 (May 1, 2019): 110–49; Jayita Sarkar, "From the Dependable to the Demanding Partner: The Renegotiation of French Nuclear Cooperation with India, 1974-80," *Cold War History*, 2020, 1–18; Jacob Darwin Hamblin, *The Wretched Atom: America's Global Gamble with Peaceful Nuclear Technology* (New York, NY: Oxford University Press, 2021).

Energy Crisis—along with the CIA Freedom of Information Act (FOIA) Electronic Reading Room, NARA's online Access to Archival Databases (AAD), and George Washington University's Digital National Security Archives (DNSA)—all of which proved tremendously useful in navigating archival closures during the Covid-19 pandemic.

And yet, this project takes a resolutely international and global approach to reveal the bidirectional flow of influence between the United States and the world at large, as well as between distinct world regions—be it Europe, the Persian Gulf, Japan, Canada, Sub-Saharan Africa, or Latin America. By mobilizing primary and secondary sources in Arabic, English, French, Hebrew, Italian, Portuguese, and Spanish, it analyzes the First Oil Shock from a variety of regional and national perspectives—including those of Venezuelan oil nationalists, French government bureaucrats, Portuguese colonial administrators, Canadian provincial Premiers, and Kuwaiti financial investors. This was possible by visiting the British, Canadian, and French National Archives, along with access to the Arab World Documentation Unit at the University of Exeter in the United Kingdom and the digital collections of the Israeli State Archives. These sources' broad geographical scope proved instrumental for effectively analyzing decentralized decision-making during a crisis in U.S. leadership—showing how the confluence of global and local forces led to profound disagreements between different actors about the threats and opportunities presented by the Energy Crisis. This, in turn, resulted in divergent and often conflicting policy responses across different nations and regions—each with their own domestic, geostrategic, and economic logics. This diversity of perspectives also allows us to understand trans-regional connections that often bypassed the United States' purview—including the competition between Venezuela and Saudi Arabia for foreign capital, the neocolonial clashes between France and African uranium producers, and the emergence of Afro-Arab anticolonial solidarities during the First Oil Shock.

To navigate such wide-ranging archives and perspectives, I mobilized energy as an interpretive and connective prism, using oil and petrodollar flows as analytical tools to uncover connections across geographies, scales, and domains of international affair. This project thus employs a variety of international newspapers from across the world—as distant Venezuela's *El Nacional*, the *Times of India*, and the *Korea Times*—along with written correspondence, speeches, op-eds, and internal records of non-governmental organizations, all of which provide an understanding on how local grassroots actors experienced and challenged the national and global manifestations of the Energy Crisis. For instance, by channeling the voices of Canadian environmental activists, Wall Street CEOs, oil company executives, U.S. Jewish lobbyists, and American neoclassical economists, we can craft a narrative that integrates, yet transcends the narrow purview of inter-state relations—grasping instead how non-state actors steered national and supranational policies in the United States and beyond. The holdings of the ExxonMobil Historical Collection at the University of Texas at Austin and the papers of Citicorp Chairman Walter Wriston at Tufts University thus proved instrumental for assessing the salient tensions and diverging interests between corporate actors and government institutions before and during the First Oil Shock—and the ways in which multinational corporations at times undermined U.S. national interest.

The prism of oil—and the financial flows it generates—also allows for a seamless shift across local, national, regional, and global scales. Transnational and worldwide organizations such as the United Nations, the International Monetary Fund, OPEC, and the OECD became key forums to debate the origins, course, and impact of the First Oil Shock—presenting us with competing interpretations of its causes, assessments of its stakes, and proposals for managing its impact. This dissertation thus draws from the United Nations Conference on Trade and Development

(UNCTAD) Archives in Geneva and the OECD Archives in Paris, along with digital collections and publications of the U.N., the IMF, the World Bank and OPEC—each of which served as an arena for geopolitical and economic clashes, rivalries, alliances, and solidarities. But this work also draws from published materials by regional institutions such as the Arab League, the Organization of African Unity, the Non-Aligned Conference, the Inter-American Development Bank, and the Arab Bank for African Economic Development—which serve as means for exploring the making of transnational pan-regional solidarities that may have escaped the attention of U.S. policymakers. And by looking beyond statements and resolutions into financial data and annual reports, we can also explore the gap between discourse and practice in international cooperation—especially as it came to South-South cooperation.

Finally, by looking beyond diplomatic archives and delving into economic data such as energy statistics, financial reports, and corporate records, this dissertation breaks down disciplinary silos and strives to grasp the workings of international society as a system that mixes political, social, economic, financial, environmental, and technological dynamics. This pursuit not only required drawing from technical knowledge in international economics and finance, but also in scientific fields such as nuclear studies. This broad interdisciplinary approach was instrumental to establishing connections between domains that would otherwise have appeared as discrete—such as oil trade, monetary policy, and nuclear nonproliferation—allowing for some of this dissertation's most salient scholarly contributions.

And yet, we must acknowledge two key limitations in our historical inquiry. First, despite the geographical breadth of the research involved to produce this work, the lack of archival access to some of the main players in this narrative—most notably Saudi Arabia and Iran—makes it challenging to get an insider's perspective on the workings of these states. Any inferences on their objectives, intentions, strategies, or motivations must be made critically and with humility—especially given the ethnocultural disdain that can at times plague U.S. archival sources vis-à-vis Middle Eastern countries, which are more than once referred to as "barbarians" and "savages."[54] Overcoming this barrier—to the extent possible—requires striking a proper balance between approaching Western archives critically to find indications of Middle Eastern actors' intentions, while refraining from over-interpreting or projecting unsupported motivations onto them. It thus becomes very difficult to infer the policy positions of different factions of the Saudi regime, or to assess the Shah's true intentions about his nuclear program.

Additionally, to refrain from overstretching and diluting the narrative, some key geographies are remarkably absent from our study, most notably, the Soviet Union, the People's Republic of China, and to some extent, India. If this dissertation goes too far in heeding Matthew Connelly's calls for "taking off the Cold War lens"—focusing on intra-Western tensions and North-South conflicts instead of the East-West bipolarity—this lack of concern for Cold War geopolitics is nonetheless reflected in the archival sources. This seems to imply that, within the context of Détente, other lines of conflict moved to the forefront of U.S. diplomatic concerns. But, while China was not a major active player in global energy markets during the 1970s, the same does not apply to the Soviet Union. Bringing Soviet oil and gas into the narrative of the Energy Crisis may thus be a fruitful line for future historiographical conversations and further inquiry—a task currently being undertaken by Michael De Groot.[55]

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[54] "Telegram From the Embassy in Saudi Arabia to the Department of State," December 30, 1973, *FRUS*, Vol. XXXVI, Doc. 276.

[55] See, for instance, De Groot, "The Soviet Union, CMEA, and the Energy Crisis of the 1970s." Additionally, Elizabeth Chatterjee is working on another promising history of the Energy Crisis in India.

Outline: From Oil Globalization to Petrodollar Financialization

This narrative of the Energy Crisis is recounted in five chapters straddling over two decades—from 1959 to 1978. However, it is mainly focused on the Nixon and Ford administrations—from 1969 to 1976—which form the bulk of the dissertation.

The **First Chapter** traces the rise and fall of post-war U.S. oil protectionism—from Eisenhower's establishment of oil import controls in 1959 to Nixon's full liberalization of oil trade in 1973. I show that, far from being an obscure change in oil import regulations, this 1973 decision signaled a radical shift in U.S. energy foreign policy. The United States abandoned its traditionally secure energy partners in the Western hemisphere—Venezuela and Canada—to rely instead on Persian Gulf producers that it sought to *make secure*—Saudi Arabia and Iran. But this decisive American entry in the global oil markets was far from preordained. A careful analysis of U.S., Canadian, and Venezuelan sources reveals that, while market forces and shifts in corporate investments were certainly pulling the United States towards the Persian Gulf, the Nixon administration dedicated years of inter-American diplomacy to fending off this process. Like his predecessors, Nixon firmly believed that U.S. economic security could be compromised if the U.S. ever were to heavily rely on Middle Eastern oil. It thus took a complex mix of circumstances for Nixon to finally make this leap towards the Gulf, including conflicts between the Venezuelan government and U.S. oil corporations, Canada's assertion of its economic independence from the United States, the Libyan revolution's radicalization of OPEC's demands, environmental activists' opposition to Alaskan oil production, and finally, Saudi Arabia's unprecedented offer to recycle petrodollars in the U.S. economy in exchange for unrestricted access to the American oil market.

Indeed, aware of America's insatiable oil demand and its declining domestic production, Nixon sought a formula to reform U.S. oil import restrictions without making the United States vulnerable to an oil embargo—a looming threat that had failed to succeed in the 1956 Suez Crisis and the 1967 Six-Day War. He sought to do this by increasing the United States' economic integration with Venezuela and Canada. However, the turn of the 1970s coincided with a surge in economic nationalism in both Caracas and Ottawa. Inspired by Qaddafi's revolution in Libya, Venezuelan President Rafael Caldera sought greater control of his country's oil industry—which was being neglected by American and Anglo-Dutch corporations that had spent the 1960s shifting investments into the more profitable regions of the Persian Gulf and North Africa. Thus, in a twist of irony, Caldera collided with U.S. corporations for the sake of obtaining a preferential energy partnership with the United States. His affronts against U.S. capital, however, soured his relations with the Nixon administration. In contrast, the government of Pierre Elliott Trudeau actively sought to assert Canada's economic independence from the United States. Unlike Venezuela, Trudeau rejected any closer energy integration in North America—fearing that any radical oil policy shift could inflame separatism in Quebec or Alberta. Pushed by environmental and indigenous activists, he also blocked the development of the United States' promising Alaskan oil fields. Amid these diplomatic deadlocks, Saudi emissaries proposed a new U.S.-Saudi relationship: not only would the world's largest market import cheap oil from the largest petroleum exporter, but Saudi Arabia could invest its rapidly growing financial reserves in the U.S. economy, alleviating American inflation and trade deficits while creating a new interdependence between both countries.

The **Second Chapter** then shows how oil import liberalization made the United States vulnerable to the Arab oil weapon—confirming longstanding assumptions about U.S. energy security. It only took six months from the abolition of U.S. oil import restrictions for Saudi Arabia to lead an Arab oil embargo against the United States—accompanied by monthly production cutbacks and OPEC oil price increases. I argue that, despite Nixon's qualms about U.S. energy vulnerability, Kissinger and the U.S. intelligence community chose to ignore the warning signs about the U.S.-Israeli alliance's incompatibility with a U.S.-Saudi rapprochement. When Egypt and Syria launched a surprise attack on Israel on Yom Kippur in October 1973, the First Oil Shock thus materialized a self-fulfilling prophecy.

This chapter argues against much of the historiography that dismisses the impact of the Arab oil weapon on global affairs. While it did not produce any economic catastrophe in the West, the embargo was tremendously successful at undermining the cohesion of the Trans-Atlantic Alliance, the European Community, and U.S.-Canadian relations. While the United States and the Netherlands suffered embargos for standing by Israel, the rest of Western Europe, Japan, and Canada distanced themselves from the U.S. to protect their oil-dependent economies. The European Common Market's refusal to support the Netherlands, in turn, revealed the hollowness of European solidarity. Meanwhile, the Nixon administration made a desperate turn towards energy self-sufficiency through Project Independence—an initiative designed to reduce America's long-term dependence on foreign, and especially Arab, oil. Thus, unable to find collaborative solutions with its allies, the United States turned inwards.

On the flipside, the Arab oil weapon also bore fruit by reinforcing South-South anticolonial solidarities. I unveil how the mostly-overlooked Arab oil embargo against the white-ruled regimes of Southern Africa brought about a new partnership between the Arab League and the Organization of African Unity. After most of Sub-Saharan Africa broke relations with Israel during the October War—isolating the Jewish state in the United Nations—Algerian President Houari Boumediene reciprocated by leading the charge against the Portuguese colonial regime in Angola and Mozambique, white-minority-ruled Rhodesia, and apartheid South Africa. This Afro-Arab joint struggle against colonialism and racial discrimination, accompanied by the creation of new financial institutions to direct Arab petrodollar flows towards African economic development, cemented the African continent's unwavering support for the ongoing oil revolution.

The **Third Chapter** then delves into the monetary implications of OPEC's fourfold increase in oil prices in January 1974, which paradoxically accompanied the Arab petrostates' increase in oil supplies. OPEC's price shock entailed the largest peacetime transfer of wealth in recorded history, with most oil-producing states accruing unprecedented surpluses while the rest of the world fell into deepening trade deficits. OPEC's economic boom thus came as a tragedy for most of the rest of the world, which had to grapple with currency disruptions, skyrocketing inflation, trade imbalances, and exploding debt. I argue that, amid fears of a global recession, Western cooperation again collapsed. Dueling solutions to these balance-of-payments problems pitted U.S. efforts at multilateral collaboration among industrialized countries against France's drive for bilateral trade deals with OPEC states. Thus, Kissinger's effort to organize industrialized countries in the February 1974 Washington Energy Conference became a spectacle of Western disunity—which again fractured both the Atlantic Alliance and the European Community.

Furthermore, OPEC's price shock also derailed the process of international monetary reform after the breakdown of Bretton Woods—undertaken by the IMF Committee of Twenty (C-20). While the C-20 was previously concerned about the weakness of the dollar, the oil shock paradoxically strengthened it, generating a whole new set of debates: whether it would be possible to return to a world of fixed exchange rates, if the dollar should keep its role as the leading international reserve asset, and how the IMF could use OPEC's petrodollars to finance balance-of-payments adjustments. I argue that, at their core, these were debates about the shape of the world's economic order, and the role of U.S. power therein. While the IMF advocated for multipolarity, sought to replace the U.S. dollar by Special Drawing Rights as the international reserve asset, and wanted to publicly mediate petrodollar financing, the United States fought to retain its monetary supremacy, protect the dominance of the U.S. dollar, and privatize petrodollar flows by channeling them through Wall Street's banks and financial markets.

The **Fourth Chapter** follows France's efforts to resolve its payments imbalances bilaterally by launching export drives into the Persian Gulf. It breaks new ground by showing how, in its desperation to find a high-value-added export to redress its oil-derived trade deficits, the French government sought to trade nuclear technologies for Persian Gulf oil. When Prime Minister Pierre Messmer launched the dramatic expansion of France's nuclear power sector, the Shah suggested an "Atom-Petroleum Exchange" to equip Iran with French nuclear reactors. This became France's model bilateral deal, which it sought to replicate with Saudi Arabia and other Gulf states. The French government's success in bilateral energy diplomacy then unleashed a global scramble for deals with OPEC states, which defeated Kissinger's multilateral consuming-country cooperation initiative. West Germany and Japan followed France's lead in their quest for the most favorable bilateral arrangements with oil producers, while the United States remained bogged down by the embargo, and Nixon faced a nationwide upheaval against high gas prices and long lines at the pump.

France's nuclear export drive into the Gulf had major unintended consequences that still shape our world. It pushed the United States into an unparalleled special relationship with Saudi Arabia, involving oil trade, security coordination and financial integration. Also, as the French government began to lose ground in the Middle East, it threatened the Nuclear Non-Proliferation regime by doubling down on its nuclear export drive into the Gulf. Despite the Shah's refusal to renounce nuclear weapons, France expanded its deal to bring Iran into French nuclear enrichment activities. Then, it conducted nuclear sales to Iraq's revolutionary Ba'athist government, despite Saddam Hussein's overt desire to pursue a nuclear arms program. The Energy Crisis thus spilled into the nuclear realm, compelling the United States to reinforce global non-proliferation safeguards through the Nuclear Suppliers Group.

Finally, the **Fifth Chapter** tracks the restoration of cooperation between the United States, Europe, and Japan to resolve the First Oil Shock, as well as the limits of South-South solidarity in a strained global economy. The end of the embargo and the American victory in the bilateral oil scramble allowed the United States to finally bring France back into the Western fold, with the establishment of multilateral institutions for the U.S., Western Europe, and Japan to manage the world's economic interdependence—namely the International Energy Agency and the G6. The United States simultaneously made a grand bargain with the Saudi monarchy, abandoning Project Independence in exchange for Saudi Arabia's commitment to recycle its petrodollars through the U.S. Treasury and Federal Reserve.

The issue of petrodollar recycling, however, was profoundly contentious. It had aroused the hopes of the Global South, which saw the Energy Crisis as a unique opportunity for the global redistribution of wealth by means of a New International Economic Order. On the opposite end of the spectrum, U.S. bankers and public officials called for petrodollars to be redistributed through the private financial system—seeing *laissez-faire* market liberalization as the remedy for OPEC's manipulation of prices and supply. And in between, there lay more or less equitable proposals for international petrodollar recycling through the IMF and the OECD. In the end, however, Saudi Arabia chose to place the world's largest economic reserves in the Federal Reserve Bank of New York. This process helped protect the U.S. dollar's dominance in a reformed international monetary system, and enshrined Wall Street's centrality in an increasingly financialized global economy, while also trapping Latin American economies in a private debt spiral.

It is now the time to tell the story of how the Energy Crisis remade our world.

Chapter I:
Democratic Radicalism, Autocratic Moderation, and the Globalization of Oil Flows: Venezuela, Canada, and the U.S.-Saudi Special Relationship, 1959-1973

With the end of the Cold War and the rise of the War on Terror, the U.S.-Saudi special relationship—encompassing hundreds of billions of dollars in oil purchases, arms sales, and financial investments—has stood as one of the few immutable cornerstones of American diplomacy. The very acronym of the Saudi oil company, Aramco, stands for the "Arabian-American Oil Company," and Saudi Arabia consistently stood as a bulwark against Soviet-aligned Arab Socialism throughout the Cold War. Historian Robert Vitalis even refers to Saudi Arabia as "America's Kingdom."[1] Thus, scholars have sought to pinpoint when exactly this special relationship became so solidly enshrined: it might have been when Texas oilmen rushed to the Arabian desert to explore for oil in the 1930s; or during the secret meeting held between Franklin D. Roosevelt and King Abdul Aziz Ibn Saud on USS Quincy—a U.S. Navy Cruiser—in 1945; or perhaps after Eisenhower supported Crown Prince Faisal's palace coup in 1958.[2]

However, all these accounts overshadow the marginality of Saudi Arabia in the United States' energy security strategy up until 1973. Certainly, Aramco was U.S.-owned, and the Saudi royal family had loyally stood against Nasser in the Arab Cold War,[3] but Saudi Arabian oil accounted for less than 1% of total US oil imports in 1970. In fact, the United States' main energy partners were Venezuela and Canada. Together, these two hemispheric partners traditionally

[1] Robert Vitalis, *America's Kingdom: Mythmaking on the Saudi Oil Frontier*, Stanford Studies in Middle Eastern and Islamic Societies and Cultures (Stanford, Calif.: Stanford University Press, 2007).

[2] See, for instance, Nathan J. Citino, *From Arab Nationalism to OPEC: Eisenhower, King Sa'ūd, and the Making of U.S.-Saudi Relations*, Indiana Series in Middle East Studies (Bloomington: Indiana University Press, 2002).

[3] Malcolm Kerr introduced the term of the "Arab Cold War" in the 1960s, which he defined as a rivalry for regional primacy between Soviet-backed Egypt and U.S.-backed Saudi Arabia, manifesting in proxy conflicts such as the Yemeni Civil War. The term has since been criticized for its narrowness by historians such as Asher Orkaby. See Malcolm H. Kerr, *The Arab Cold War, 1958-1967*, Chatham House Online Archive (London: Oxford University Press, 1971); Asher Orkaby, *Beyond the Arab Cold War: The International History of the Yemen Civil War, 1962-68*, Oxford Studies in International History (New York: Oxford University Press, 2017).

accounted for about 80% of all U.S. oil imports.[4] Indeed, since Eisenhower, the U.S. had built a global oil architecture predicated upon hemispheric self-sufficiency—designed to shield U.S. consumers from the Middle East's geopolitical instability. Counterintuitively, however, this changed in April 1973, just six months before the First Oil Shock and the Arab Oil Embargo. This overlooked watershed marked a radical realignment of U.S. energy policy from protectionism to liberalization; from a historical reliance on the Americas, to an increasing dependence on the Persian Gulf. And paradoxically, this stood diametrically opposed to President Richard Nixon's original intent: he rose to the presidency in 1969 vowing to ensure that the United States would never become heavily reliant on Arab oil, and he was bent on revamping the protectionist hemispheric system by building new oil partnerships with Venezuela and Canada.[5] Four years later, however, Nixon had turned his back on America's traditional hemispheric partners and abolished all the protectionist trade policies that had historically kept Middle Eastern oil out of the U.S. market. Instead, he gambled on a new special relationship with the Saudi monarchy.

The historiography has failed to notice this paradox, overlooking the fundamental transformation of the United States' energy security strategy from a regional inter-American protectionist framework to a U.S. commercial, diplomatic and security entanglement in the Persian Gulf under the guise of trade liberalization.[6] To fully grasp this radical and enduring shift in U.S.

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[4] Petroleum Trade Statistics, Tables 3.1, 3.3a, 3.3c, 3.3d, Energy Information Administration, U.S. Department of Energy, https://www.eia.gov/petroleum/data.php.

[5] "Memorandum From President Nixon to Secretary of Labor Shultz," March 25, 1969, *FRUS*, Vol. XXXVI, Doc. 2.

[6] Surprisingly, the historiography has too often under-examined oil's global dimensions, ignoring this major shift in U.S. oil foreign policy from the Americas to the Middle East. On the one hand, oil histories of Venezuela and Saudi Arabia such as Fernando Coronil's *The Magical State* (1997) and Robert Vitalis's *America's Kingdom* (2007) remain bounded by national borders, caught between bilateral diplomatic and commercial relationships amongst oil producing states, multinational corporations and the U.S. government. On the other hand, works of a fully global scope, such as Daniel Yergin's *The Prize* (2009), are limited by a certain degree of teleological thinking and retrospective bias: the U.S. special relationship with oil-producing Arab states—and Saudi Arabia in particular—is drawn as a natural and quasi-inevitable consequence of the Texas oilmen's involvement in Arabian oil production in the 1930s. Other global works such as Giuliano Garavini's *The Rise and Fall of OPEC in the Twentieth Century* (2019) are not focused on U.S. foreign policy, while Stephen Randall's *United States Foreign Oil Policy since*

energy relations, we will take a global perspective to show how the rise in a U.S.-Saudi preferential relationship was fueled by U.S. diplomatic crises with both Venezuela and Canada. While the Nixon administration had the initial intention of reinforcing oil protectionism by revamping Western hemispheric ties, these negotiations faltered under the pressure of Venezuela's conflicts with U.S. oil corporations and Canadian calls for economic sovereignty vis-à-vis the United States. Moreover, exogenous shocks brought additional strain to these relationships: the Libyan Revolution drew Venezuela into a wave of anti-corporate resource nationalism that strained Caracas's relationships with Washington, and the rise of transnational environmental activism generated new tensions between the U.S. and Canada over the fate of Alaskan oil. The Saudi monarchy seized this tumultuous context to lobby for a new preferential partnership with Washington in mid-1972, promising to invest billions of dollars from oil revenues in the U.S. economy if Nixon liberalized U.S. oil imports. But while this new interdependence would relieve inflationary and balance of payments pressures on the U.S. economy, it rested on fragile grounds: King Faisal of Saudi Arabia conditioned this secret deal upon adequate progress in the Israeli-Arab conflict—opening the way for the Oil Shock to come.

World War I barely delves into the 1970s. Meanwhile, the Canadian historiography of oil is surprisingly scant. Thus, this paradoxical and highly consequential transformation of global oil markets still begs to be studied. For global histories of oil, see Anthony Sampson, *The Seven Sisters: The Great Oil Companies and the World They Shaped* (New York: Bantam Books, 1976); Stephen J. Randall, *United States Foreign Oil Policy since World War I: For Profits and Security*, 2nd ed. (Montréal ; Ithaca: McGill-Queen's University Press, 2005); Daniel Yergin, *The Prize: The Epic Quest for Oil, Money, & Power* (New York: Free Press, 2009); Giuliano Garavini, *The Rise and Fall of OPEC in the Twentieth Century*, First edition. (Oxford: University Press, 2019). For place of oil in U.S.-Saudi relations, see Citino, *From Arab Nationalism to OPEC*; Vitalis, *America's Kingdom*; Victor McFarland, *Oil Powers: A History of the U.S.-Saudi Alliance* (New York, NY: Columbia University Press, 2020). For the place of oil in Venezuelan nation-building and U.S.-Venezuelan relations, see Fernando Coronil, *The Magical State: Nature, Money, and Modernity in Venezuela* (Chicago: University of Chicago Press, 1997); Miguel Tinker Salas, *The Enduring Legacy: Oil, Culture, and Society in Venezuela*, American Encounters/Global Interactions (Durham [NC]: Duke University Press, 2009); Stephen G Rabe, *The Road to OPEC: United States Relations with Venezuela, 1919-1976* (University of Texas Press, 2014). For histories of oil in Canada, see Ed Gould, *Oil: The History of Canada's Oil & Gas Industry* (Saanichton, B.C.]: Hancock House Publishers, 1976); Peter McKenzie-Brown, Gordon Jaremko, and David Finch, *The Great Oil Age: The Petroleum Industry in Canada* (Calgary, Alta: Detselig Enterpirse Ltd, 1993); Paul Chastko, *Developing Alberta's Oil Sands: From Karl Clark to Kyoto*, Books Collection. (Calgary, CA: University of Calgary Press, 2004).

I. Western Hemispheric Preference and U.S. Oil Import Controls: Middle Eastern Oil as a National Security Threat

Since the late 1950s, U.S. oil trade had been driven by the twin logics of economic protectionism and national security, both of which curtailed the entry of Middle Eastern oil into the American market. Despite the fateful meeting between President Dwight Eisenhower and King Abdul Aziz Al-Saud in 1957—which is generally understood as a watershed in U.S.-Saudi rapprochement—and the fact that Saudi Arabia's oil production was carried out by the U.S.-owned Arabian-American Oil Company or Aramco,[7] the kingdom's petroleum output was mainly destined for Western Europe (33-44% of Saudi exports between 1955 and 1970) and Asia and the Pacific, especially Japan (30-40%).[8] In fact, the Cold War might have internationalized U.S. security concerns, but U.S. oil trade remained stubbornly conceived within a framework of regional security with a narrow focus on the Western Hemisphere. The U.S. domestic oil industry—which, unlike the "Seven Sisters"-led international oil production,[9] brought together thousands of local U.S. independent oil companies—viewed the rapid expansion of cheap and

[7] Aramco was initially established in 1933 by Standard Oil of California (SoCal, today known as Chevron) as the California-Arabian Standard Oil; it was renamed as the Arabian-American Oil Company (Aramco) in 1944, and between 1946 and 1948, the Texas Oil Company (Texaco), Standard Oil of New Jersey (which also used the brand name Esso, and was later renamed as Exxon), and Socony-Vacuum (later known as Socony-Mobil and then Mobil) also acquired shares of the company. By the late 1960s, its main shareholders were SoCal (30%), Texaco (30%), Standard Oil of New Jersey/Esso (30%) and Mobil (10%).

[8] Islam Y. Qasem, *Oil and Security Policies: Saudi Arabia, 1950-2012* (Leiden ; Boston: Brill, 2015), 44–45.

[9] In the 1950s, the usage of the term "Seven Sisters" was popularized, referring to the seven multinational oil companies that formed the consortium to exploit Iranian oil after the 1953 coup against Mosaddegh, and that dominated the global industry through the mid-1970s. These include: the Anglo-Iranian Oil Company (then British Petroleum or BP), Royal Dutch Shell (Shell), Standard Oil of California (SoCal, later known as Chevron), Gulf Oil (merged with SoCal in 1985), the Texas Company (Texaco, acquired by Chevron in 2001), Standard Oil of New Jersey (Esso, renamed the Exxon Corporation in 1973), and Standard Oil of New York (successively known as Socony, Socony-Vacuum, Socony Mobil Oil, and finally Mobil in 1963). Exxon and Mobil then merged into ExxonMobil in 1999. For their history up to the mid-1970s, see Sampson, *The Seven Sisters*. The Seven Sisters are distinct from the Supermajors, a usage that became common in the 1990s to refer to the seven largest publicly traded Western multinational oil corporations, which include the successors of the Seven Sisters (ExxonMobil, Chevron, BP and Shell), as well as France's Total, Italy's Eni, and U.S. ConocoPhillips.

plentiful Middle Eastern and North African oil during the 1950s as a major commercial threat. Moreover, after the Second World War, the Middle East saw the rise of anticolonial struggles and labor movements that targeted Western corporate and political interests. A series of notable international crises punctuated the decade, including Prime Minister Mohammad Mosaddegh's nationalization of the Iranian oil industry in 1951 and his subsequent MI6- and CIA-backed ouster in 1953; the 1956 Suez Crisis in which Egyptian President Gamal Abdel Nasser first called for the use of the "Arab oil weapon" against Western colonial powers; and the assassination of Iraq's pro-Western Hashemite monarchy in a bloody revolution in 1958. The United States thus sought to push back against the threat of resource nationalism by orchestrating covert and overt military operations in the Persian Gulf and trying to "contain" Nasser and his anti-imperialist brand Arab nationalism. As a result, an American oil "orthodoxy" emerged that sought to shield the U.S. domestic oil market not just from foreign competition, but also from the Middle East's perceived geopolitical insecurity.[10]

[10] For some overviews of U.S.-Arab relations under Eisenhower, and especially on the establishment of closer relations between the U.S. and Saudi Arabia in an effort to contain the radicalism of Egyptian president Gamal Abdel Nasser, see Nathan J. Citino, *From Arab Nationalism to OPEC: Eisenhower, King Saʿūd, and the Making of U.S.-Saudi Relations*, Indiana Series in Middle East Studies (Bloomington: Indiana University Press, 2002); Salim Yaqub, *Containing Arab Nationalism: The Eisenhower Doctrine and the Middle East*, New Cold War History (Chapel Hill: University of North Carolina Press, 2004); For overviews of Mosaddegh's nationalization of the Iranian oil industry and the 1953 coup, see Stephen Kinzer, *All the Shah's Men: An American Coup and the Roots of Middle East Terror* (Hoboken, NJ: J. Wiley & Sons, 2003); Darioush Bayandor, *Iran and the CIA: The Fall of Mosaddeq Revisited* (Houndmills, Basingstoke, Hampshire ; New York, NY: Palgrave Macmillan, 2010); Ervand Abrahamian, *The Coup: 1953, the CIA, and the Roots of Modern U.S.-Iranian Relations* (New York: The New Press, 2013); Ervand Abrahamian, *Oil Crisis in Iran: From Nationalism to Coup D'etat* (Cambridge University Press, 2021); For overviews of the 1956 Suez crisis, see Selwyn Ilan Troen, Moshe Shemesh, and S. Ilan Troen, *The Suez-Sinai Crisis, 1956: Retrospective and Reappraisal* (New York: Columbia University Press, 1990); David A. Nichols, *Eisenhower 1956: The President's Year of Crisis--Suez and the Brink of War*, 1st Simon & Schuster hardcover ed. (Riverside: Simon & Schuster, 2011); Guy Laron, *Origins of the Suez Crisis: Postwar Development Diplomacy and the Struggle over Third World Industrialization, 1945-1956* (Washington, D.C. : Baltimore: Woodrow Wilson Center Press ; The Johns Hopkins University Press, 2013); Philip Zelikow, *Suez Deconstructed: An Interactive Study in Crisis, War, and Peacemaking* (Washington, D.C.: Brookings Institution Press, 2018); For overviews of the Iraqi Revolution of 1958, see Robert A. Fernea and William Roger Louis, *The Iraqi Revolution of 1958: The Old Social Classes Revisited* (London ; New York: Tauris, 1991); Marion Farouk-Sluglett, *Iraq since 1958: From Revolution to Dictatorship*, Rev. ed. (London ; New York: I.B. Tauris, 2001); Charles Tripp, *A History of Iraq*, 3rd ed. (Cambridge: University Press, 2007); For an overview of U.S. oil foreign policy in the 150s, see

Consequently, at the end of his second term, Eisenhower established the Mandatory Oil Import Control Program (MOIP) on March 10, 1959, to restrict the amount of foreign oil that could enter the United States. This legal framework embodied the key assumptions on U.S. energy security that had emerged during the 1950s: for Eisenhower, it was designed to fulfil the "requirements of our national security" by ensuring the viability of a "vigorous, healthy petroleum industry in the United States" and by "exploring for and developing new Hemisphere reserves to replace those being depleted."[11] MOIP thus placed an emphasis on national security as the "sole legal basis for regulating oil imports into the United States," which would be achieved through a hemispheric logic, recognizing, "of course, that within the larger sphere of Free World security, we, in common with Canada and the other American Republics, have a joint interest in hemisphere defense."[12] These regulations capped oil imports east of the Rocky Mountains at a maximum of 12.2% of total U.S. oil production—with import licenses being granted under a quota system. Only two countries benefited from "overland exemptions" from these controls: Canada and Mexico, which could export oil into the United States via pipelines and were only bound by voluntary quotas. However, since its 1910s revolution, Mexico had embraced resource nationalism and oil conservation, and after it nationalized its petroleum industry in 1938, the country gradually ceased exporting petroleum, using it instead for its own industrialization. This *de facto* left Canada as the

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Stephen J. Randall, *United States Foreign Oil Policy since World War I: For Profits and Security*, 2nd ed. (Montréal ; Ithaca: McGill-Queen's University Press, 2005).

[11] Statement accompanying Presidential Proclamation 3279 of March 19, 1959, reproduced in Frank N. Ikard, President, American Petroleum Institute to President Lyndon B. Johnson, November 7, 1968, White House Central Files, Executive, TA6/Oil, Box 19, Lyndon B. Johnson Presidential Library, Austin, TX.

[12] Office of Oil and Gas, Department of the Interior, "United States Petroleum Through 1980," July 1, 1968, 19, White House Central Files, Executive, Commodities, TA6/Oil, Box 6, Lyndon B. Johnson Presidential Library, Austin, TX.

only country unbound by import restrictions—allowing it to replace the Middle East as the second largest source of U.S. oil imports by the early 1960s.[13]

The establishment of oil quotas under MOIP produced a backlash among the world's remaining oil exporting countries. This led Venezuelan Oil Minister Juan Pablo Perez Alfonzo and his Saudi counterpart Abdullah Tariki to co-found the Organization of Petroleum Exporting Countries (OPEC) in 1960, in an attempt to regain some level of control over the global oil markets.[14] And yet, Venezuela still retained the largest share of U.S. oil imports under this new protectionist regime, providing about two thirds of all U.S. oil imports despite being bound by quotas.[15] In fact, in line with hemispheric notions of U.S. energy security, MOIP favored oil imports from the Western Hemisphere: within the first 8 years of oil import controls, purchases from the Eastern Hemisphere—including the Persian Gulf, Africa, and Southeast Asia—remained static, hovering around 450 barrels per day (bpd); in contrast, oil inflows from the Americas almost doubled from 1,219 bpd in 1958 to 2,120 bpd in 1966, by which time they represented over 80% of all U.S. petroleum imports.[16] Conversely, Persian Gulf oil only accounted for about 12% of U.S. oil imports, or about 2.5% of domestic consumption. MOIP thus turned Venezuela and Canada into the United States' leading oil partners, to the detriment of Middle Eastern producers.[17]

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[13] Office of Oil and Gas, Department of the Interior, "United States Petroleum Through 1980"; "Memorandum From the Chairman of the Council of Economic Advisers (McCracken) to President Nixon," December 31, 1969, *FRUS*, Vol. XXXVI, Doc. 33, https://history.state.gov/historicaldocuments/frus1969-76v36/d33.

[14] For Venezuela's foundational role in establishing OPEC, see Stephen G Rabe, *The Road to OPEC*; Garavini, *The Rise and Fall of OPEC in the Twentieth Century*.

[15] Petroleum Trade Statistics, Tables 3.1, 3.3a, 3.3c, 3.3d, Energy Information Administration, U.S. Department of Energy, https://www.eia.gov/petroleum/data.php. This figure includes Venezuelan crude refined and processed in offshore locations such as the Netherlands Antilles and the Bahamas, which reached the U.S. market indirectly.

[16] Office of Oil and Gas, Department of the Interior, "United States Petroleum Through 1980."

[17] Petroleum Trade Statistics, Table 3.a, Energy Information Administration, U.S. Department of Energy, https://www.eia.gov/petroleum/data.php.

However, by 1964, MOIP had already found some major critics. On the one hand, oil-producing U.S. state governments and independent oil companies claimed that import controls had not gone far enough. For instance, according to the Texas Independent Producers & Royalty Owners Association, oil imports had "gobbled up 44% of U.S. oil market growth," creating distress for the independents. The U.S. domestic oil industry was growing at a meager 1% per year—in contrast to the global average of 10%—and was facing tremendous strain due to foreign competitors' lower prices.[18] Moreover, governors and senators from oil-producing U.S. states such as Texas, Louisiana, North Dakota and Kansas begged President Johnson to strengthen oil protectionism by placing even harsher limitations on imports as to "restore the health and vigor of an industry that is indispensable to our security and economic progress."[19] On the other hand, however, Senators from oil-importing New England and Florida considered MOIP's controls to be excessive and harmful for their economies. They pushed for liberalizing reforms such as the removal of quotas for at least some petroleum-derived products, and especially residual fuel oil—which was used in electricity production and could serve as a substitute for coal. They thus questioned the underlying logic of import controls, arguing that there was no national security basis for quotas that placed an "unfair economic burden on New England."[20]

Cracks thus began to show over MOIP, which became increasingly denounced as an overly bureaucratic government machinery that was hurting U.S. consumers in the name of ambiguously

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[18] A. L. Newman, Deputy Director of Information to Lloyd Hackler, The White House, "Memorandum: Suez Canal and the Pipelines, Free World Dependence upon Arab Oil," June 9, 1967, White House Central Files, Executive, PU1/FG145, Box 8, Lyndon B. Johnson Presidential Library, Austin, TX.

[19] Russell B. Long and others to Lyndon Johnson, August 31, 1964, White House Central Files, Executive, TA6/Oil, Box 19, Lyndon B. Johnson Presidential Library, Austin, TX; William Guy to Lyndon Johnson, March 25, 1964, White House Central Files, Executive, TA6/Oil, Box 19, Lyndon B. Johnson Presidential Library, Austin, TX.

[20] "General Line That Might Result from the Meeting with New England Senators," 1965, White House Central Files, Executive, TA6/Oil, Box 19, Lyndon B. Johnson Presidential Library, Austin, TX; Stewart Udall to Marvin Watson, "Forecast of Congressional Reaction to Interior's New Residual Oil Import Program," March 30, 1965, White House Central Files, Executive, TA6/Oil, Box 19, Lyndon B. Johnson Presidential Library, Austin, TX.

defined notions of national security. For instance, the Department of the Interior—which oversaw energy policy at the time—acknowledged that, by protecting independent oil producers, it had created a "two-priced system for oil consisting of a world price and an appreciably higher U.S. price." This, in turn, had resulted in declining U.S. oil exports, which hurt the U.S. balance of payments.[21] Meanwhile, the allocation of import quotas and permits was opaque and inefficient, leading to calls for market-oriented reforms such as making permits tradable and awarding them through competitive auctions.[22] But MOIP's image problem worsened as ludicrous loopholes came to light, most notably the "Brownsville U-Turn" or "Texas Merry Go-Round." Mockingly known as *El Loophole,* it allowed for foreign oil to be shipped via tankers to Brownsville, TX, where it was placed on trucks, brought across the Rio Grande to Mexico, and then immediately circled back into the U.S. as a quota-free "oil-import from Mexico" that benefited from the overland exemption.[23]

And even in the Americas, MOIP was not free from controversies, as it succeeded in upsetting both the Venezuelan and Canadian governments—its primary foreign beneficiaries. Venezuela, for instance, accused MOIP of being a discriminatory system that gave Canada unlimited access to the U.S. market all while holding back Venezuelan oil through quotas; the Venezuelan government thus demanded "equal treatment" with Canada, that is, its full exemption from the quota system. Meanwhile, despite repeated U.S. requests, Canada did not respect its

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[21] "Proposed Revisions to the Oil Import Control Program," December 31, 1965, White House Central Files, Executive, TA6/Oil, Box 19, Lyndon B. Johnson Presidential Library, Austin, TX.

[22] "OEP Staff Consensus on the Proposed Revision of the Oil Proclamation," August 10, 1965, White House Central Files, Executive, TA6/Oil, Box 19, Lyndon B. Johnson Presidential Library, Austin, TX; "Agency to Urge That Oil Import Licenses Be Sold, like Lease Rights, to Top Bidders," March 21, 1968, White House Central Files, Executive, Commodities, TA6/Oil, Box 6, Lyndon B. Johnson Presidential Library, Austin, TX.

[23] Charles J. Cicchetti and William J. Gillen, "The Mandatory Oil Import Quota Program: A Consideration of Economic Efficiency and Equity," *Natural Resources Journal* 13, no. 3 (1973): 399–430.

voluntary quota, which it increasingly exceeded—leaving less room for Venezuelan imports. As a result, MOIP was provoking mounting tensions between Venezuela and Canada that required American diplomatic mediation.[24]

Thus, during the summer of 1965, Johnson and his Secretary of the Interior Stewart Udall grew increasingly wary of the need to reform MOIP—but they remained cautious. Udall believed that simply abolishing import controls and opening the United States up to foreign oil could seriously harm America's standing in the world, and he conveyed to the president that, "If we were ever to become decisively dependent on imports of foreign oil, we would soon become subject to unacceptable economic and political pressures by a few major oil-producing countries." Most of all, the United States had to protect its surplus oil production capacity, which was not just a cornerstone of U.S. energy independence, but also an "essential protection for the oil economy of the Free World." As America could share its spare oil capacity with allies in times of need, it kept them from becoming economically dependent on hostile states. After all, among all major industrialized countries, only the United States and the Soviet Union had enough oil reserves and excess capacity to be truly considered energy independent, so any growing dependence on foreign oil would place the U.S. at a severe disadvantage vis-à-vis its rival Cold War superpower. This could even push Western Europe into a long-term reliance on Soviet hydrocarbons—an unacceptable prospect. National security thus compelled government action to reduce imports as to ensure that the U.S. would never excessively depend on foreign oil—and much less so from the Middle East—leaving a large enough energy security margin for Western Europe and Japan.[25]

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[24] Lee White to Lyndon Johnson, "Proposed Adjustment in Crude Oil Import Program," June 4, 1965, White House Central Files, Executive, TA6/Oil, Box 19, Lyndon B. Johnson Presidential Library, Austin, TX.

[25] Stewart Udall to Lyndon Johnson, "Memorandum to the President," August 3, 1965, White House Central Files, Executive, TA6/Oil, Box 19, Lyndon B. Johnson Presidential Library, Austin, TX.

But the Johnson administration also had to acknowledge that America was facing a disquieting trend: the U.S. domestic oil industry was showing early signs of decline, as hundreds of independent oil companies were going out of business because they could not find new oil wells to exploit. Exploratory drilling had been waning for eight years—falling 30% below 1956 levels. This meant that, without a breakthrough, U.S. domestic oil production would reach its peak and begin to decline within a few years. In contrast, U.S. oil consumption would keep rising—not just because of the growing American middle class's demand for cars, but also because of the war in Vietnam. In line with the military escalation in Southeast Asia, the Department of Defense's oil demand saw a sharp increase in 1965 that was set to continue for years ahead. And, due to Vietnam's geographic location, it was logistically more suitable for U.S. ships and aircraft to use jet fuel and gasoline from Eastern Hemisphere sources such as the Persian Gulf—which would increase America's need for oil imports and add more pressure on the U.S. balance of payments.[26]

But reforming America's oil import policy would prove to be a formidable task. Between 1964 and 1967, Udall tried to reconcile the disparate interests of U.S. consumers, independent oil companies, the military, and America's hemispheric oil partners, but this required simultaneously adding flexibility to MOIP and hardening its quotas—an unlikely feat—all while navigating the diplomatic hurdles between Venezuela and Canada. He proposed lifting some import controls, with the elimination of quotas on residual fuel oil and the creation some coastal or insular quota-exempted Free Trade Zones—especially in overseas territories such as the Virgin Islands and Puerto Rico.[27] However, given that residual fuel oil could be a substitute for coal in electricity generation, this incensed not just the independent oil companies and oil-producing U.S. states, but

[26] Udall to Johnson.

[27] Udall to Johnson.

also the Appalachian mining industry and the state of West Virginia.[28] Meanwhile, independent oil producers feared that the construction of quota-exempted petrochemical complexes and refineries in the Virgin Islands and Puerto Rico could serve as gateways for new oil import loopholes—which, rather than aiding these insular economies, would further hinder U.S. oil production.[29] Udall tried to assuage these concerns by promising to harden the application of the 12.2% cap on imports—for instance, by pressuring Canada not to exceed its voluntary quota and working with Defense Secretary Robert McNamara to ensure that more U.S. oil would reach Vietnam—but resistance to reform remained robust.[30] And even the attempt to formalize a system of Hemispheric Preference by granting Venezuela an 8% quota bonus—a compromise vis-à-vis its demands for equal treatment with Canada—could generate diplomatic backlash from Eastern Hemisphere oil-producing diplomatic allies such as Saudi Arabia, Iran, or Libya, without satisfying the Venezuelan government's desire for an unrestricted access to the U.S. oil market. Udall's reforms attempts were thus paralyzed by mounting opposition from entrenched interests—and he only succeeded in partially liberalizing residual fuel oil imports.[31]

And then, an international crisis confirmed the wisdom of America's national security-driven oil orthodoxy. After Israel's resounding victory in its June 1967 Six Day War against the combined forces of Egypt, Jordan and Syria, and its seizure of East Jerusalem, the Gaza Strip, the

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[28] "Report of the Cabinet Committee on Appalachian Coal," March 8, 1965, White House Central Files, Executive, TA6/Oil, Box 19, Lyndon B. Johnson Presidential Library, Austin, TX.

[29] Joe Califano to Lyndon Johnson, October 26, 1967, White House Central Files, Executive, Commodities, TA6/Oil, Box 6, Lyndon B. Johnson Presidential Library, Austin, TX.

[30] Gardner Ackley, Chairman of the Council of Economic Advisors, "Memorandum for the President: Background Material on Petroleum and Price Stability," November 10, 1965, White House Central Files, Executive, TA6/Oil, Box 19, Lyndon B. Johnson Presidential Library, Austin, TX; Privy Council Office, "Memorandum for the Prime Minister: Oil Exports to the United States," October 1, 1968, Pierre Elliott Trudeau Fonds, MG26 O7, Vol. 381, Energy Correspondence, 1968-1972, Library and Archives Canada (LAC), Ottawa, ON, Canada.

[31] White to Johnson, "Proposed Adjustment in Crude Oil Import Program," June 4, 1965.

West Bank, the Sinai Peninsula and the Golan Heights, Arab countries retaliated with the "oil weapon" by launching an embargo against Israel's Western allies. They also temporarily closed their pipelines to the Mediterranean—most notably the Trans-Arabian Pipeline or "Tapline," which connected Saudi Arabia's oil fields to the Lebanese port of Sidon through Jordan and Syria.[32] Some Arab countries took the economic offensive even further: Iraq and Libya shut down their oil production altogether, and Algeria nationalized Esso's local holdings. Meanwhile, Israel's occupation of the Sinai resulted in the closure of the Suez Canal—which was the main artery for the transit of oil tankers from the Persian Gulf into Western Europe. To make matters worse, this all coincided with the onset of the Nigerian Civil War, which caught Shell and British Petroleum's oil facilities in the Niger Delta at the crossfires between Nigeria's federal government and the secessionist self-proclaimed Republic of Biafra.[33] Thus, these conflicts constricted global oil output and disrupted trade routes: suddenly, Persian Gulf oil could only be shipped to Europe via long-haul tankers by circling all of Africa, which triggered an international oil tanker shortage.[34]

The Department of the Interior considered the oil situation to be much more severe than the Suez Crisis of 1956. It swiftly declared a Petroleum Emergency and convened a Foreign

[32] For historical overviews of the 1967 Arab-Israeli War, see Michael B. Oren, *Six Days of War: June 1967 and the Making of the Modern Middle East* (Oxford: University Press, 2002); Guy Laron, *The Six-Day War: The Breaking of the Middle East* (New Haven: Yale University Press, 2017).

[33] For historical overviews of the Nigerian Civil War and the secession of the Republic of Biafra, see John J. Stremlau, *The International Politics of the Nigerian Civil War, 1967-1970*, Princeton Legacy Library 1582 (Princeton, NJ: Princeton University Press, 2015); Peter Baxter, *Biafra: The Nigerian Civil War, 1967-1970*, Revised edition., Africa@War (Warwick, England: Helion & Company, 2019).

[34] A. L. Newman, Deputy Director of Information to Lloyd Hackler, The White House, "Memorandum: Suez Canal and the Pipelines, Free World Dependence upon Arab Oil," June 9, 1967; J. Cordell Moore, Assistant Secretary of the Interior to Governor Farris Bryant, Director of the Office of Emergency Planning, June 28, 1967, White House Central Files, Executive, PU1/FG145, Box 8, Lyndon B. Johnson Presidential Library, Austin, TX; John Ricca, Chairman, Emergency Petroleum Supply Committee to J. Cordell Moore, Assistant Secretary of the Interior, October 6, 1967, White House Central Files, Executive, Commodities, TA6/Oil, Box 6, Lyndon B. Johnson Presidential Library, Austin, TX.

Petroleum Supply Committee to prepare an action plan.[35] But given the United States' primary reliance on its domestic oil supply along with imports from Venezuela and Canada, along with the scale of its spare production capacity, the U.S. was barely affected by this oil cutoff. Instead, it focused on supporting Western Europe, which relied heavily on Arab oil.[36] The U.S. thus led an international coordinated response to the crisis, shipping oil to its NATO allies in conjunction with Venezuela to make-up for the supply disruptions. The Arab world's use of the oil weapon faltered—with countries tempted to cheat in a prisoner's dilemma—which prompted them to lift export restrictions and reopen Tapline by September 1967. But despite America's success in dealing with this short-lived oil crisis, the Six-Day War came as a stern reminder that oil was, after all, a strategic commodity whose global supply could be shaken by regional conflicts. MOIP had effectively served its purpose of shielding the U.S. oil market from Middle Eastern instability—validating the primacy of protectionism and national security as the key drivers of America's oil import policy, and further paralyzing MOIP's reform process.[37]

But severe doubts remained as to how long the system could survive. By May 1968, a White House official put it bluntly: "The oil import program is a mess," "drawing heavy fire from all parts of the industry" while "not pleasing anyone." It had become "evidence of shoddy

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[35] Office of the Secretary, United States Department of the Interior, "Interior Declares Petroleum Emergency; FPSC Activated," June 10, 1967, White House Central Files, Executive, PU1/FG145, Box 8, Lyndon B. Johnson Presidential Library, Austin, TX.

[36] J. Cordell Moore, Assistant Secretary of the Interior to Governor Farris Bryant, Director of the Office of Emergency Planning, June 28, 1967.

[37] John Ricca, Chairman, Emergency Petroleum Supply Committee to J. Cordell Moore, Assistant Secretary of the Interior, October 6, 1967; Office of the Secretary, United States Department of the Interior, "Remarks of Assistant Secretary of the Interior, J. Cordell Moore, Before the Emergency Petroleum Supply Committee Meeting, Washington, D.C., October 6, 1967," October 10, 1967, White House Central Files, Executive, Commodities, TA6/Oil, Box 6, Lyndon B. Johnson Presidential Library, Austin, TX; Office of the Secretary, United States Department of the Interior, "Free World Petroleum Supply and Transportation Adequate for Needs," October 10, 1967, White House Central Files, Executive, Commodities, TA6/Oil, Box 6, Lyndon B. Johnson Presidential Library, Austin, TX; Yergin, *The Prize*, 536–40.

administration, poor coordination and questionable policy decisions." Even marginal adjustments for Puerto Rico and the Virgin Islands were "bitterly attacked by the independents and the bulk of the oil industry" on national security grounds. Experimental revisions to quota allocations resulted in such market distortions that Udall had to cancel them—resulting in multiple lawsuits. Meanwhile, each attempt to help a subset of the industry raised the specter of corruption—of providing "special favors" to those with "friends in high places."[38] And the 1967 crisis had provided the domestic oil industry with all the necessary munition to push back against any meaningful relaxation of import restrictions, despite the oil industry's inability to keep up with the country's escalating oil demand. Indeed, for the American Petroleum Institute, the "Middle East crisis […] highlighted the soundness of the security objective of the oil import program. […] Had the United States been more dependent on foreign oil to meet its domestic requirements, it is highly unlikely that this record could have been achieved."[39]

But the rapid deterioration of the U.S. oil industry also meant that America was losing its long-treasured surplus capacity—the energy security margin upon which the Western world had relied since the Second World War. Thus, in November 1968, the U.S. government announced to its European partners at an OECD meeting in Paris that U.S. oil production was reaching its capacity limits, and that, in another emergency such as that of 1967, the U.S. would be unable to come to their aid—to their shock and disbelief.[40] This spelled the end of an era for America's energy strategy, which urgently demanded a substantial revision. But in the end, Lyndon

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[38] "Memorandum to the President," May 1, 1968, White House Central Files, Executive, Commodities, TA6/Oil, Box 6, Lyndon B. Johnson Presidential Library, Austin, TX.

[39] Frank N. Ikard, President, American Petroleum Institute to President Lyndon B. Johnson, November 7, 1968.

[40] Yergin, *The Prize*, 549–50.

Johnson—under heavy pressure from oil interests in his home state of Texas—was unable to carry out any meaningful reform, leaving the task to his successor: Richard Nixon.[41]

When Nixon took over the American presidency in 1969, MOIP was just one piece among a longer series of challenges inherited from the Johnson administration—including the Vietnam War, rising inflation, and the deterioration of America's balance of payments. These issues were certainly interrelated: protectionist quotas kept U.S. oil prices above world averages and created inflationary pressures; military operations in Southeast Asia boosted American oil consumption; and rising oil imports contributed to deteriorating trade balances. The Nixon administration thus sought to find formulas that would preserve America's advantages in the energy, military, and monetary fronts, all the while reducing policy costs, burdens and constrains. Along with the creation of similar groups tasked with reviewing policy options for Vietnam and for Bretton Woods,[42] Nixon established a Cabinet Task Force on Oil Import Controls in March 1969 headed by Secretary of Labor George Shultz. He would pick up where Udall left off: trying to protect the American oil industry and keep the country's economy secure, while making import controls more flexible to account for the stagnation of domestic oil production.[43]

But by 1969, MOIP was in dire straits: oil imports were reaching 20% of U.S. production—with Canada far surpassing its voluntary quota. The nominal 12.2% cap on oil imports had clearly

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[41] "Editorial Note," *FRUS*, Vol. XXXVI, Doc. 1.

[42] For an overview of Paul Volker's commission to study options for Bretton Woods, see Duccio Basosi, "The US, Western Europe and a Changing Monetary System, 1969-1979," in *Europe in the International Arena during the 1970s: Entering a Different World = L'Europe Sur La Scène Internationale Dans Les Années 1970 : À La Découverte d'un Nouveau Monde*, ed. Antonio Varsori and Guia Migani, Euroclio, No. 58 (Bruxelles ; New York: P.I.E. Peter Lang, 2011), 99–116; For the Nixon administration's study of options for Vietnam as laid out in National Security Study Memorandum #1, and the subsequent policy of Vietnamization, see George C. Herring, *America's Longest War: The United States and Vietnam, 1950-1975*, 3rd ed., America in Crisis (New York: McGraw-Hill, 1996), ch. 7.

[43] "Memorandum From President Nixon to Secretary of Labor Shultz."

become obsolete.[44] Meanwhile, Venezuela's share had declined to 50% of imports, arousing angrier complaints of being treated as a second-class partner. But, while Venezuela continued demanding unrestricted access to the U.S. market, its very heavy crude was three times costlier than that of the Middle East, so economic logic would have given preference to Arab or Iranian oil—which could help address both inflation and trade imbalances. But again, the 1967 oil crisis had clearly shown that importing cheap Middle Eastern oil would make the U.S. more vulnerable to an Arab oil embargo, and the competition of cheap Saudi or Libyan oil would further squeeze the margins of the independents—taking even more of them out of business. The White House quickly understood that the system had no easy fix. But this did not prevent Nixon from announcing that he would revise America's oil import policy within a year, unleashing a mix of hope, defiance and controversy that would be difficult to contain.[45]

Any choice by the Nixon administration would have major implications for global and local energy markets, so different domestic and foreign interest groups pleaded for the government's attention—all invoking contradictory understandings of U.S. national interest. Shultz's Task Force had to answer fundamental questions regarding the place of oil within the U.S. economy and national security: Was oil another commercial commodity restrained by an outmoded protectionist quota system—that is, a lucrative market waiting to be liberalized for consumers to benefit from the world's most advantageous prices? Or was it a cornerstone of national and military security, a politicized commodity over which the country's whole military-economic apparatus relied, especially given that the world's largest proven oil reserves resided in the geopolitically unstable Middle East? The large multinational oil corporations were clear

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[44] "Memorandum From Darwin M. Bell of the Department of Labor to Secretary of Labor Shultz," April 1, 1969, *FRUS*, Vol. XXXVI, Doc. 4.

[45] "Memorandum From Darwin M. Bell of the Department of Labor to Secretary of Labor Shultz."

advocates of market liberalization: most of their activities had been shifting to the Middle East and North Africa, where oil was produced at the lowest costs and provided the highest margins.[46] Thus, the large multinational oil companies claimed that the U.S. economy—and the average consumer—would most benefit from a liberalization of the oil import market that would allow Eastern Hemisphere states such as Iran, Saudi Arabia, Libya, Indonesia and Nigeria to freely export their oil to the United States. However, such a move was not only opposed by the independents and some influential U.S. oil-producing state governments—including Texas, California, Louisiana, Oklahoma, New Mexico, Wyoming and Kansas—but also by the diplomatic and security apparatus—the State Department, Department of Defense, National Security Council, and CIA.[47] These institutions argued that, given the low costs of oil production in the Middle East, the U.S. would come to depend on the Middle East for over 50% of its oil supply under a fully liberalized regime within just a few years, with dire consequences for national security and America's global geopolitical standing.[48]

Thus, the State Department advised Shultz's Task Force to establish a hierarchy of oil sources from the most to the least secure and prioritize imports accordingly:

> We believe the relative degrees of security for sources of petroleum are as follows:
> a. Domestic sources—most secure.
> b. North American oil (mainly Canadian)—almost as secure as domestic oil.
> c. Western Hemisphere oil (mainly Venezuelan)—next most secure. Although we must recognize the possibility of political upheaval in Venezuela, it has been a secure source of oil in all crises in the last thirty years. […]
> d. Eastern Hemisphere oil must be considered relatively insecure. While it is difficult to assess relative degrees of security, we would say that of the major producers,

[46] "Memorandum From Victor A. Mack of the Department of the Treasury to the Executive Director of the Cabinet Task Force on Oil Import Control (Areeda)," October 31, 1969, *FRUS*, Vol. XXXVI, Doc. 13.

[47] "Memorandum From Vice President Agnew to President Nixon," December 16, 1969, *FRUS*, Vol. XXXVI, Doc. 30.

[48] "Memorandum From the Deputy Assistant Secretary of State for Near Eastern and South Asian Affairs (Rockwell) to the Assistant Secretary of State for Near Eastern and South Asian Affairs (Sisco)," November 14, 1969, *FRUS*, Vol. XXXVI, Doc. 17.

1) Indonesia and Iran are more secure than
2) Nigeria, the Arab states and Portuguese Africa.[49]

This national security hierarchy, which prioritized access to the U.S. oil market for Canada and Venezuela over "insecure" Eastern Hemisphere oil, was echoed by similar analyses in the Department of Defense and the CIA. In particular, the DoD stressed the strategic importance of steady oil imports for the Vietnam War—where, by 1969, 50% of military tonnage consisted of oil products—and reinforced the need for a "hemispheric" view of world oil markets:

> The interest of the DoD in expanding oil development by areas in order of priority is first the Continental U.S., secondly the Western Hemisphere and, thirdly other Free World areas. This order of priority includes, but is not limited to, the maintenance of a domestic production and refining capability to meet military and essential civilian requirements.[50]

Finally, the CIA also weighed in on the relative security implications of U.S. reliance on Venezuela against the Arab world. It stressed the historical reliability of Venezuela—for example during the 1967 crisis—and President Rafael Caldera's friendliness to the United States, desire to receive preferential access to the U.S. market on par with Canada's, and concern about the decreasing share of Venezuelan oil in U.S. imports. Moreover, the CIA stressed the high probability of a renewed oil embargo against the U.S. and Europe by Arab oil producers, the dangers posed by Nasser's pan-Arabist radicalism, and the risk of unfriendly actors seizing power in Libya and Saudi Arabia via coups. The assessment of Saudi Arabia also called for relative caution: the regime was deemed to be fragile—with risks of political upheaval, succession crises, and civil war in the oil-rich Eastern Province—but the CIA considered that a prolonged Saudi-led oil embargo against the U.S. would be economically disastrous for the ruling family and make the country even more vulnerable to Nasser and other radical forces. The final assessment was consistent with those of

[49] "Draft Paper Prepared in the Department of State," undated, *FRUS*, Vol. XXXVI, Doc. 7.

[50] "Paper Prepared in the Department of Defense," undated, *FRUS*, Vol. XXXVI, Doc. 10.

the Departments of State and of Defense: any dependence on Arab states for oil would make the U.S. vulnerable to blackmail in the likely event of a new Arab-Israeli War. In contrast, Venezuela was an exemplary ally: a successful Latin American democracy that stood as a bulwark against Cuban communism in the Americas, and which needed to be supported—not destabilized—by a revised U.S. oil import policy.[51]

However, the Cabinet Task Force remained under pressure from the multinational oil companies and the governments of Iran and Saudi-Arabia—strategic Cold War allies in America's policy of anti-Soviet containment. For the multinationals and the Gulf's ruling monarchs, the restriction of oil imports from the Middle East through the quota system was inconsistent with the level of corporate involvement of U.S. firms in oil production in the region. It was an anomaly for the largest American oil companies to face restrictions in their ability to export Saudi, Iranian and Kuwaiti oil to the United States—the world's largest energy market. Following the same logic, both Iranian Shah Mohammad Reza Pahlavi and Saudi Prince Fahd personally met Nixon to demand an increase of oil shipments from the Persian Gulf to the United States. In exchange, the Shah suggested that he could reinvest some of these profits in the U.S. as arm purchases—thus better ensuring his role as America's "policeman" in the Persian Gulf. However, Nixon, Shultz, and National Security Advisor Henry Kissinger still refused to open the U.S. oil market to Iran or Saudi Arabia—with long-held fears of imperiling American energy security.[52]

Instead, they opted for a middle ground that would—at least in theory—lower oil prices for U.S. consumers and ensure American security of supply, whilst satisfying domestic U.S. oil producers, Venezuela, Iran, and Saudi Arabia. Studying a range of choices—from keeping MOIP

[51] "Memorandum Prepared in the Central Intelligence Agency," August 28, 1969, *FRUS*, Vol. XXXVI, Doc. 8.

[52] "Editorial Note," *FRUS*, Vol. XXXVI, Doc. 11.

intact to fully liberalizing oil imports—the Task Force veered towards intermediate options such as a mixed quota-tariff system of Western Hemispheric Preference: Countries in the Americas would pay lower tariffs than those in the Eastern Hemisphere, allowing Persian Gulf states to slowly expand their exports to the United States without threatening the positions of the more secure traditional partners.[53] While oil prices would be higher than under a fully liberalized regime, consumers had to pay this "tax" for their national security. But, even if it was designed as a fair and balanced compromise, this mixed quota-tariff arrangement pleased no one—and angered many. For Venezuelan authorities, this system would enshrine their perpetual discrimination vis-à-vis Canada, which would keep its overland exemption; instead of appreciating their preferential treatment compared to the Gulf states, the Venezuelan government became emboldened in its demand for unlimited access to the U.S. market and for trade terms on par with Canada's.[54] Meanwhile, Middle Eastern regimes could consider the tariffs to be discriminatory against them, and in Secretary of Defense Melvin Laird's terms, "they will raise hell." And the proposed trade policy also ignored the concerns of other NATO and OECD members—which had become extremely dependent on Middle Eastern and Libyan oil, and, without America's surplus capacity, had become very vulnerable to an Arab oil cutoff.[55]

On December 31, 1969, the Cabinet Task Force on Oil Import Controls made its official recommendation for a new preferential tariff-quota system, backed by Shultz along with Secretary

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[53] "Memorandum From the Director of the White House Energy Policy Staff (Freeman) to the Executive Director of the Cabinet Task Force on Oil Import Control (Areeda)," October 21, 1969, *FRUS*, Vol. XXXVI, Doc. 12; "Memorandum From Victor A. Mack of the Department of the Treasury to the Executive Director of the Cabinet Task Force on Oil Import Control (Areeda)"; "Memorandum From C. Fred Bergsten of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger)," November 10, 1969, *FRUS*, Vol. XXXVI, Doc. 16.

[54] "Notes on a Meeting of the Cabinet Task Force on Oil Import Control With President Nixon," November 20, 1969, *FRUS*, Vol. XXXVI, Doc. 19.

[55] "Transcript of a Telephone Conversation Between the President's Assistant for National Security Affairs (Kissinger) and Secretary of Defense Laird," December 9, 1969, *FRUS*, Vol. XXXVI, Doc. 25.

of State William Rogers and Secretary of Defense Melvin Laird. The system would let Canadian oil duty free—a step towards creating an integrated North American oil market—while giving preference to Western Hemisphere oil through lower tariffs and placing higher tariffs and quantitative limits on Eastern Hemisphere imports on national security grounds. The quota system would be phased out over three to five years with the introduction of increasing competition into the domestic petroleum market, which would lower prices for consumers and help fight inflation.[56] However, Secretary of the Interior Walter Hickel and Secretary of Commerce Maurice Stans strongly opposed the majority recommendation: they advocated for preserving MOIP, and just programming annual increases on the oil import cap. In their opinion, tariffs amounted to price fixing to the detriment of domestic oil interests—which had to be supported in finding additional reserves in new frontiers. In fact, they had already confirmed major oil discoveries in northern Alaska in 1968, which could enable the U.S. to strengthen oil import controls.[57]

But in the end, like their predecessors Johnson and Udall, Nixon and Shultz decided to hold off on a final decision, postponing indefinitely any major change in import controls—a move that Texas Senator John Tower hailed, and Massachusetts Senator Edward Kennedy condemned. Indeed, Nixon had failed on his promise to overhaul U.S. oil policy within a year of his presidency, leading nine New England senators to admonish the president in an open letter for having caved under industry pressure. New Hampshire Senator Thomas McIntyre took his ire further, calling it "another major victory for the secret government of oil."[58] But this did not mean that change would not come to U.S. oil policy. In fact, with the conclusion of the Task Force's work, the Nixon

[56] "Memorandum From the Chairman of the Council of Economic Advisers (McCracken) to President Nixon."

[57] "Minority Report," January 9, 1970, *FRUS*, Vol. XXXVI, Doc. 34.

[58] Edwin L. Dale Jr., "Nixon Postpones a 'Major' Change on Imported Oil," *The New York Times*, February 21, 1970, https://www.nytimes.com/1970/02/21/archives/nixon-postpones-a-major-change-on-imported-oil-it-was-proposed-in.html.

administration shifted its focus towards bilateral discussions with Venezuela and Canada, which held the keys towards a reformed system of Hemispheric Preference.[59]

II. Caldera, Qaddafi, and the Breakdown of U.S.-Venezuelan Energy Relations: Venezuelan Nationalism, the Libyan Revolution, and OPEC's Surging "Radicals"

Nixon could not establish a new oil policy of Western Hemispheric Preference unilaterally, as this entailed substantially strengthening the existing energy partnerships with Venezuela and Canada. And indeed, Venezuela stood out as the strongest advocate of closer hemispheric relations with the United States. Paradoxically, however, this coincided with mounting clashes between Caracas and the U.S.-based multinational oil corporations that controlled the country's oil production, which conservative President Rafael Caldera accused of having neglected Venezuelan oil fields for over a decade. Emboldened by Qaddafi's radical measures against foreign oil companies at the onset of the Libyan Revolution, and under heavy pressure from his leftist congressional opposition, Caldera passed unprecedented legislation to tax and control the U.S. oil firms. Therefore, Caracas's embrace of anti-corporate oil nationalism placed it at odds with Washington, dashing Nixon's hopes for a new special energy relationship with Venezuela.

When Nixon assumed the presidency in 1969, Venezuela remained the world's top oil exporter and third largest producer—after the United States and the Soviet Union—which made this South American country an obvious choice for a preferential energy partnership with the U.S.[60] After all, Venezuela had historically stood as the United States' largest oil trading partner, and unlike Mexico—Latin America's other oil giant—Venezuela had refrained from any anti-

[59] Edwin L. Dale Jr.

[60] British Embassy in Caracas, "Caracas Despatch (1/2): Some Impressions of Venezuela," December 10, 1969, FCO 67/426, Oil Policy of Gov't of Venezuela, 1970, The National Archives, Kew, United Kingdom.

corporate oil policies, priding itself in fostering a welcoming environment for foreign capital and an openness to trade.[61] Thus, after the Mexican Revolution, Venezuela arose as a destination of choice for multinational oil corporations such as Standard Oil of New Jersey and Royal Dutch Shell, resulting in the country's first oil boom in the 1920s.[62] For almost three decades, military strongman Marcos Perez Jimenez positioned Venezuela as a close ally of the United States and used the oil rent to modernize the country. Hence, Venezuela achieved its objective of increasing oil-derived state revenues while retaining the foreign corporate ownership of its oil production.[63] For instance, in 1943, it enshrined the "fifty-fifty" principle into law, ensuring that half of the oil companies net revenues would go to the Venezuelan state.[64] Thereon, during the 1940s and 1950s, the United States and Western Europe relied on imports from Venezuela to meet the oil demand generated by World War II, the Korean War, the nationalization of the Iranian oil industry, and the Suez Crisis—which in turn allowed Venezuela to boast the highest income per capita in all Latin America. This cemented Venezuela's place as the United States' largest oil trading partner.[65]

However, with its democratic transition in 1958, Venezuela began witnessing a rise in resource nationalism—which would transform the country's place in global oil markets for decades to come. The provisional junta that ousted Perez Jimenez unilaterally increased oil companies' maximum income tax rate from 26% to 45%—to which were added royalty payments,

[61] For the place of oil and economic nationalism in the Mexican Revolution, see Jonathan C. Brown, *Oil and Revolution in Mexico* (Berkeley: University of California Press, 1992); Myrna I. Santiago, *The Ecology of Oil: Environment, Labor, and the Mexican Revolution, 1900-1938*, Studies in Environment and History (Cambridge ; New York: Cambridge University Press, 2006).

[62] Yergin, *The Prize*, 217–20.

[63] For the place of oil in the history of Venezuelan state building and its relations with the United States, see Coronil, *The Magical State*; Tinker Salas, *The Enduring Legacy*; Stephen G Rabe, *The Road to OPEC*.

[64] Yergin, *The Prize*, 413–19.

[65] Miguel Tinker Salas, "Staying the Course: United States Oil Companies in Venezuela, 1945-1958," *Latin American Perspectives* 32, no. 2 (2005): 147–70.

effectively increasing the Venezuelan state's share in company profits to 60%.[66] Socony Mobil warned that this new tax law would hurt Venezuela in the long run by discouraging future investments: Venezuela was competing for capital with other oil-producing regions of the world, and multinational corporations could easily move capital wherever it was more profitable. Mobil thus threatened to divest from Venezuela: the law would shrink after-tax profits in Venezuela below those of the Middle East, so future planning for exploration and production would be adjusted accordingly.[67] But to no avail: Venezuela had begun a long shift in its economic orientation, and the general population associated the United States and its oil corporations with Perez Jimenez's dictatorship. Nothing exemplified this shift better than Nixon's visit to Caracas in May 1958: in his goodwill tour of Latin America as the U.S. Vice President, Nixon nearly lost his life when an angry pipe-wielding mob attacked his motorcade in the streets of Caracas—a furious response to Eisenhower granting asylum to the disgraced pro-American autocrat.[68] In the democratic elections that followed, the victorious left-leaning Social Democratic candidate Romulo Betancourt embraced the tax increase on the oil companies—to popular acclaim, and to the detriment of U.S. corporate profits—and his Oil Minister Juan Pablo Perez Alfonzo then played a leading role in establishing OPEC in 1960.[69]

But despite the growing animosity between Betancourt and the multinational oil corporations, the U.S. government continued to maintain close relations with Venezuela. After all,

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[66] Tomás Straka, *La nación petrolera: Venezuela, 1914-2014* (Caracas, Venezuela: Academia Nacional de la Historia, 2016), 33–34.

[67] "Statement of Socony Mobil Oil Company, Inc. Re: Venezuelan Decree No. 476 of December 19, 1958," January 27, 1959, 2.207/E204, Mobil Geographic Files, South America, Venezuela, ExxonMobil Historical Collection, Briscoe Center for American History, University of Texas at Austin, Austin, TX.

[68] Nixon vividly described the incident in his memoirs *Six Crises*, in which he sought to showcase his courage in the face of danger to bolster his image among the U.S. electorate. See Richard M. Nixon, *Six Crises*, 1st ed. (Garden City, N.Y.: Doubleday, 1962).

[69] Straka, *La nación petrolera*, 33–34.

Betancourt may have been a leftist and a nationalist, but he was also staunchly anti-communist. After Fidel Castro's revolutionary victory, Cuban-backed guerillas launched an insurgency in Venezuela and attacked its oil installations. Betancourt thus arose as a key ally in the hemispheric battle against Cuban communism: Cuba singled out Venezuela as a key destination to export its revolution, and the John F. Kennedy administration responded by showcasing it as symbol of capitalist success and a lynchpin of the Alliance for Progress.[70] Betancourt and his successor Raul Leoni defended the country's oil fields and infrastructure, used petroleum revenues to successfully wage an anti-Communist counterinsurgency, and at times pushed even further than the U.S. to diplomatically isolate Cuba. But contradictions began to emerge between Venezuela's standing as a key U.S. strategic ally in the Americas, and the country's strife with the foreign oil corporations whose profits it sought to squeeze as much as it could without nationalizing them.[71]

Between 1961 and 1967, Betancourt and Leoni subjected the corporations to rising levels of taxation: in 1965, Leoni presented them with a $175 million bill of allegedly unpaid taxes, and in 1967, he revised tax reference prices in such a way that Socony Mobil claimed that 68% of company profits were going into Venezuelan state coffers—the highest levels in OPEC.[72] Venezuela thus experienced capital flight throughout the 1960s: the oil corporations followed

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[70] For overviews of Venezuela's Castro-backed Communist insurgency and Betancourt's response, see Michael Tarver, *Venezuelan Insurgency, 1960-1968: A Successful Failure* (USA: Xlibris Corporation, 2001); Daniel Levinson Harris, "The Venezuelan Castro-Communist Counterinsurgency (1960-1968) and the Fight for Emergent Democratic Governments," *Small Wars & Insurgencies* 32, no. 1 (2021): 152–62, https://doi.org/10.1080/09592318.2020.1826837.

[71] Mr. Martin, Chairman, Latin American Policy Committee, Department of State to Roger Hileman, "Venezuela and the Alliance for Progress," May 29, 1962, Arthur Schlesinger Papers, Box WH49, Classified Subject Files, Venezuela, John F. Kennedy Presidential Library, Boston, MA; USAID/Caracas, "FY 64 Budget Submission, Venezuela," September 21, 1962, Arthur Schlesinger Papers, Box WH23, Venezuela, John F. Kennedy Presidential Library, Boston, MA; Salas, "Staying the Course."

[72] Rawleigh Warner, "Talk to the International Advisory Committee, Chase Manhattan Bank," September 21, 1971, 2.207/E204, Mobil Geographic Files, South America, Venezuela, ExxonMobil Historical Collection, Briscoe Center for American History, University of Texas at Austin, Austin, TX.

through on their threats and shifted their investments away from the Caribbean and into the Middle East and North Africa. For a whole decade, the country saw little efforts to survey new oil fields, and while observers believed that Venezuela had vast unexplored reserves—indeed, as of today, they are the world's largest—the country's oil production stagnated.[73] In contrast, Libya and Saudi Arabia experienced an oil boom, and even if new oil fields were developed in Indonesia and Nigeria, 60% of the growth in oil production between 1960 and 1970 was concentrated in the Middle East and North Africa.[74] Even Venezuelan oil's chemical properties hindered its competitiveness: Caribbean crude oil had a very high sulfur content, which made it much costlier to refine and process to meet America's evolving sulfur-oxide emission regulations—in stark contrast to North Africa's exceptionally low-sulfur crude.[75] These high costs shrank corporate margins even further, and continued disincentivizing Venezuelan oil production. Thus, by 1970, Venezuela had lost its place as the world's largest oil exporter—rapidly falling behind Iran, Saudi Arabia, and Libya—which spelled dire prospects for Nixon's plans for hemispheric preference.[76]

The decline of Venezuela's oil production came right as the world petroleum situation became critical. In 1970, U.S. domestic oil production reached its peak and began its slow decline. Cheap oil had led to decreasing investments in new fields worldwide and stimulated a consumption boom in the West with no regards for sustainability. For example, not only were people driving more cars, but these were getting heavier—carrying air-conditioning—without engines becoming more fuel-efficient. Thus, new production could not keep up with rising oil demand, and by the turn of the 1970s, global oil supply only exceeded demand by about 1%—a sign of extreme

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[73] British Embassy in Caracas, "Caracas Despatch (1/2): Some Impressions of Venezuela."

[74] Yergin, *The Prize*, 548–50.

[75] Office of Oil and Gas, Department of the Interior, "United States Petroleum Through 1980."

[76] Warner, "Talk to the International Advisory Committee, Chase Manhattan Bank."

tightness for a very inelastic market. Any sudden disruption could make prices soar dramatically—with dire consequences for the American, European, and Japanese economies. And in this context, the Libyan Revolution was the spark that set global oil markets on fire—unexpectedly dragging Venezuela into a series of international controversies that would seriously test Nixon's oil policy reform.[77]

On September 1st, 1969, young military officer Muammar Qaddafi overthrew Libya's King Idris. Qaddafi had been heavily influenced by Gamal Abdel Nasser's ideas of Arab socialism and revolution, and as the head of the new Revolutionary Command Council, he quickly directed his radical rhetoric against the multinational and independent oil firms operating the country's Mediterranean oil fields—and particularly the country's largest oil field in Sirte. The Libyan Revolution spelled ominous prospects for European oil consumers: after the closure of the Suez Canal in the 1967 war, Libya had become an oil *El Dorado*, supplying 30% of Western Europe's oil. However, this overreliance on a single source of oil had made Western Europe extremely vulnerable to the whims of the young Libyan revolutionary, who pressured companies for higher taxes and royalties while threatening to expel them—starting with Esso, which refused to comply. He was unimpressed by the companies' claims that their expulsion would ruin Libya's economy: "People who have lived without oil for 5,000 years can live without it again for a few years in order to attain their legitimate rights," he proclaimed.[78] Besides, British diplomats looked with concern when a Venezuelan petroleum delegation set out for Tripoli in March 1970 to seek better

[77] Yergin, *The Prize*, 548–50; "Telegram From the Mission to the Organization for Economic Cooperation and Development to the Department of State," May 28, 1970, *FRUS*, Vol. XXXVI, Doc. 46.

[78] Yergin, *The Prize*, 559–60.

coordination between both countries' oil policies—which could be interpreted as a tacit sign of support for Libya's uncompromising stance.[79]

And, right as Qaddafi's revolution was spelling deep uncertainty for Europe's oil-hungry consumers, another twist of fate in the Eastern Mediterranean worsened the global oil situation: on May 3, 1970, a tractor "accidentally" ruptured Tapline in Syria, preventing Saudi Arabia from exporting oil to Europe via Mediterranean short-haul tankers. Despite temporarily halting its operations in 1967, Tapline had survived the Arab-Israeli war and Israel's occupation of the Golan Heights, and in fact, the Suez Canal's closure had increased the pipeline's strategic importance: while oil tankers from the Persian Gulf were forced to circle Africa to reach Europe, Tapline connected the Gulf directly to the Eastern Mediterranean.[80] Thus, the pipeline's breakdown—or, as claimed by the Saudis, sabotage by Syrian authorities—once again brought the European oil market under sudden major stress: oil was still being produced and sold, but it was less accessible due to an insufficient number of tankers within the continent's reach. As oil tanker transportation costs soared, the idea of Western hemispheric preference was put to a premature test.[81]

Qaddafi's threats and Tapline's breakdown had a global impact, which could be felt across the Atlantic: with the ongoing tanker squeeze and the accompanying oil price hike, it became more economical for Venezuela to shift its oil exports from the United States to Europe. This brought the U.S. market under unexpected stress—with a national shortage and rationing of residual fuel oil and asphalt. Clearly, Venezuela had benefitted from a hike in oil prices in Europe without fully

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[79] British Embassy in Tripoli to British Embassy in Caracas, March 1970, FCO 67/426, Oil Policy of Gov't of Venezuela, 1970, The National Archives, Kew, United Kingdom.

[80] Yergin, *The Prize*, 560.

[81] After the alleged accident, Syrian authorities did not allow for Tapline to be repaired, and only acquiesced a year later, after doubling their transit fees; Tapline was owned by the same American shareholders of Aramco, and the apparent sabotage served both to double Syrian transit receipts and as a demonstration of anti-U.S. hostility; see Ian Seymour, *OPEC, Instrument of Change* (London: Macmillan, 1980), 57–58.

ensuring U.S. oil needs, which proved that Venezuela could abandon its northern neighbor in moments of hardship. Indeed, unlike Canada, which was bound to the United States by overland pipelines, Venezuela's use of maritime tankers allowed it to freely ship its oil to the highest bidder. Thus, while this did not jeopardize Venezuela's oil relationship with the U.S. or the system of Western Hemispheric preference, it did confirm that, due to oil's material infrastructure, this Caribbean nation could not be granted unlimited access to the U.S. oil market—unlike Canada.[82]

And yet, Venezuela's new right-leaning Christian Democratic president Rafael Caldera would fight for preferential treatment. In June 1970, he became the first democratically elected Venezuelan president to travel to Washington, D.C., where he addressed Congress and met with Nixon. Aware that Venezuela's oil could not compete with that of the Middle East, he pleaded the U.S. not to open its market to the rest of the world, but to build a new hemispheric oil policy in which Venezuelan oil would receive unrestricted access to the U.S. market—begging Congress to end a decade of humiliating discriminatory treatment vis-à-vis Canada. He also warned about the need to reverse the progressive decline of Venezuela's share among U.S. oil imports—which was approaching 42% after a peak of 65% in the mid-1960s—meaning that Venezuela was not benefitting from the ongoing rise in U.S. oil demand.[83]

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[82] "Action Memorandum From the Deputy Assistant Secretary of State for International Resources and Food Policy (Katz) to the Assistant Secretary of State for Economic Affairs (Trezise)," July 28, 1970, *FRUS*, Vol. XXXVI, Doc. 51; "Según el norteamericano Dunlop, el Mejor Trato que EE.UU. Pueda Dar al Petróleo Venezolano Depende de las Condiciones de Transporte," *El Nacional*, December 1, 1970, Film NC 534, Newspaper Microfilm Reading Room, Widener Library, Harvard University, Cambridge, MA.

[83] "Declaraciones del presidente Caldera: Hablaré en Estados Unidos de la Inaplazable Urgencia de una Nueva Política Hemisférica," *El Nacional*, June 1, 1970, Film NC 534, Newspaper Microfilm Reading Room, Widener Library, Harvard University, Cambridge, MA; "El Presidente Caldera Viaja Hoy a Washington," *El Nacional*, June 2, 1970, Film NC 534, Newspaper Microfilm Reading Room, Widener Library, Harvard University, Cambridge, MA; "Caldera 'Optimista y Complacido' después de su Entrevista con Richard Nixon," *El Nacional*, June 3, 1970, Film NC 534, Newspaper Microfilm Reading Room, Widener Library, Harvard University, Cambridge, MA; "Caldera Pidió a Washington Ponerle Fin al Tratamiento de 'Segunda Clase' a Venezuela," *El Nacional*, June 3, 1970, Film NC 534, Newspaper Microfilm Reading Room, Widener Library, Harvard University, Cambridge, MA.

But, beyond these familiar tropes, Caldera framed U.S.-Venezuelan relations in a new light: instead of making the case for his country's exceptionalism as the region's leading petrostate, he claimed that Venezuela was just another impoverished raw material-exporting Latin American country, with little say on its economic destiny. If anything, U.S.-Venezuelan trade was just a microcosm of the unequal exchange that characterized U.S.-Latin American relations. Oil, in this sense, was no different from coffee, bananas or copper—its fluctuating price could lead to economic hardship, which in turn could explode into popular rebellions and radical guerillas. Claiming to be the spokesman for all Latin America, he pleaded Congress to rethink America's relationship with the rest of the continent: terms of trade, in this sense, held the keys for determining the future of the region's future democratic stability. He thus asked the American leadership to "decide to become the pioneer of international social justice," or else, "they will have to face the consequences." After all, it was ironic that the U.S. was waging war in Southeast Asia while neglecting its own neighborhood. And yet, he highlighted that, in some respects, Venezuela remained exceptional: it was a democracy that held no political prisoners, and it did not expropriate foreign capital—some of the usual excuses used to dismiss Latin American countries' pleas for assistance. Hence, if Venezuela's demand for a hemispheric treatment was ignored, what message would this send to the rest of the continent?[84]

Furthermore, given that the U.S. domestic oil industry resisted viewing Venezuela as a partner instead of a threat, Caldera stopped in Texas on his way back to Caracas, meeting with

[84] "Caldera aplaudido en el Congreso de EE.UU.: Nuestro Pueblo no Puede Comprender que se le Haga Objeto de Trato Discriminatorio," *El Nacional*, June 4, 1970, Film NC 534, Newspaper Microfilm Reading Room, Widener Library, Harvard University, Cambridge, MA; "Caldera conmocionó al Congreso Norteamericano," *El Nacional*, June 4, 1970, Film NC 534, Newspaper Microfilm Reading Room, Widener Library, Harvard University, Cambridge, MA; "Washington Encontró en Caldera Algo Demasiado Distinto a lo Acostumbrado," *El Nacional*, June 5, 1970, Film NC 534, Newspaper Microfilm Reading Room, Widener Library, Harvard University, Cambridge, MA.

local oilmen at the River Oaks Country Club in Houston. He told these executives that U.S. oil demand was expected to increase by at least 30% within the decade, leaving plenty of room for both Venezuelan and domestic oil to fill this gap. Also, as Venezuelan oil was more expensive than that of the Middle East, it was less threatening to the bottom lines of independent oil producers. Instead, Venezuela and Texas had a common adversary: the Middle East and North Africa. Indeed, if U.S. oil imports became fully liberalized, Arab oil would flood the market—displacing Venezuela and crushing domestic producers. Hence, they had to band together against the entry of Middle Eastern oil. This required trust, however, so he made a proposal for collaboration: the large multinational oil corporations were not investing in Venezuela, but this could be an opportunity for the independents. Caldera thus offered to grant licenses for U.S. independent oil companies to develop new oil fields in Lake Maracaibo, the Gulf of Venezuela, and the Orinoco Delta—if they supported his plea for a hemispheric oil policy.[85]

Caldera's trip thus appeared to have been successful. He obtained a temporary quota increase for Venezuelan oil for the remainder of 1970, which made him optimistic that both Nixon and Congress were heeding his views. Moreover, Houston-based independent oil company Occidental Petroleum would eventually get an exploration license in southern Lake Maracaibo, and Texas-based independents appeared to be having a change of heart vis-à-vis a hemispheric treatment for Venezuelan oil—which they allegedly no longer saw as a threat.[86] Unfortunately,

[85] Valmore Acevedo, "El Viaje presidencial," *El Nacional*, June 1, 1970, Film NC 534, Newspaper Microfilm Reading Room, Widener Library, Harvard University, Cambridge, MA; "El Presidente Caldera ante los Petroleros en Houston: Nuestro Petróleo lejos de Significar Amenaza para los Productores Domésticos Representa un Complemento Indispensable para la Creciente Demanda Interna," *El Nacional*, June 5, 1970, Film NC 534, Newspaper Microfilm Reading Room, Widener Library, Harvard University, Cambridge, MA.

[86] "Anuncio Oficial en Washington: Caldera Consiguió Aumento en la Cuota Petrolera," *El Nacional*, June 5, 1970, Film NC 534, Newspaper Microfilm Reading Room, Widener Library, Harvard University, Cambridge, MA; Warner, "Talk to the International Advisory Committee, Chase Manhattan Bank"; "Cambio radical para el Petróleo Venezolano por Parte de los Petroleros Independientes de EE.UU.," *El Nacional*, November 26, 1970, Film NC 534, Newspaper Microfilm Reading Room, Widener Library, Harvard University, Cambridge, MA.

however, Venezuela's progressive enmeshment in the Libyan crisis reversed these short-lived gains. As the Libyan Revolution celebrated its one-year anniversary in September 1970, Occidental—the concessionary of the country's largest oil field in the Sirte Basin—accepted a 20% increase in royalties and taxes. By the end of the month, Libya had imposed an unprecedented price hike upon all the foreign oil companies, and an increase in the country's share of profits from 50 to 55%. This signaled a profound change in the balance of power between oil-producing states and international oil companies—with consequences well beyond Libya's Mediterranean shores. The Libyan government had shown to the world's other oil producing countries that they could impose their own terms on the international oil companies. Power was shifting from the Seven Sisters to the oil producing states, and the rest of OPEC took advantage of this situation to press for similar terms. In November 1970, the Shah emulated Qaddafi and demanded a 55% share of profits; other Gulf producers followed suit. But it was Venezuela that took the most radical step to increase its leverage over the oil companies.[87]

The Venezuelan National Congress was impressed with Libya's actions in unilaterally raising the price of oil—and it deemed such a price hike to be fully justified: U.S. inflation had exceeded 5% in 1970, and with oil internationally traded in U.S. dollars, Venezuela's main source of income was losing its real value. Moreover, global market prices for oil were on the rise, but Venezuela received its taxes based on lower, outdated reference prices. Thus, in November 1970, the center-left congressional opposition began to threaten Caldera: if he did not act against the companies, lawmakers would.[88] In the press, politicians left and right began to call for Venezuela

[87] Yergin, *The Prize*, 559–663.

[88] "O las Compañías Aumentan los Precios del Petróleo o el Congreso Actuará," *El Nacional*, November 19, 1970, Film NC 534, Newspaper Microfilm Reading Room, Widener Library, Harvard University, Cambridge, MA; "Venezuela ante la Conyuntura Petrolera Trascendental," *El Nacional*, November 22, 1970, Film NC 534, Newspaper Microfilm Reading Room, Widener Library, Harvard University, Cambridge, MA; "40 Centavos de Dólar por Barril Bajó el Precio del Petróleo Venezolano en el Mercado de Estados Unidos en los últimos 10 años,"

to finally embrace oil nationalism as its new non-partisan political orientation—placing the country's development needs ahead of the oil corporations' quest for profits and dividends.[89] These events coincided with the second meeting of the Venezuelan Petroleum Congress—a gathering of local oil industry experts that would recommend guidelines for revising the country's oil policy. This meeting called for Venezuela's oil policy to keep up with that of Arab countries, and it went as far as to question whether the Venezuelan state truly exerted any effective control over the nation's oil industry and its economic destiny. Auguring a new nationalist turn, the Petroleum Congress referred to Simon Bolivar's 1829 Quito Decree, according to which all mines belonged to the Republic—which they interpreted as also making oil the property of the nation.[90] In heated debates, oil nationalists claimed that taxing multinational corporations did not amount to exerting actual sovereign control over the oil industry, and that, once the concessions to the foreign oil companies expired in 1983, they should not be renewed. Instead, with "No more concessions!" as a rallying cry, they asked for the oil industry to irreversibly revert to the Venezuelan state—opening the path for its future nationalization.[91]

El Nacional, November 25, 1970, Film NC 534, Newspaper Microfilm Reading Room, Widener Library, Harvard University, Cambridge, MA.

[89] Valmore Acevedo, "Nacionalismo Petrolero," *El Nacional*, November 23, 1970, Film NC 534, Newspaper Microfilm Reading Room, Widener Library, Harvard University, Cambridge, MA; Reinaldo Figueredo Planchart, "Debate Petrolero," *El Nacional*, November 24, 1970, Film NC 534, Newspaper Microfilm Reading Room, Widener Library, Harvard University, Cambridge, MA.

[90] "El II Congreso Venezolano de Petróleo Desbordado por la Situación Mundial," *El Nacional*, December 1, 1970, Film NC 534, Newspaper Microfilm Reading Room, Widener Library, Harvard University, Cambridge, MA; "Venezuela Aceptó Propuesta Árabe," *El Nacional*, December 1, 1970, Film NC 534, Newspaper Microfilm Reading Room, Widener Library, Harvard University, Cambridge, MA.

[91] "Aplazado Debate Complejo Sobre Reversión Petrolera," *El Nacional*, December 1, 1970, Film NC 534, Newspaper Microfilm Reading Room, Widener Library, Harvard University, Cambridge, MA; "Debate en el Congreso Petrolero: Cuestionado el Verdadero Control del Estado sobre la Industria Petrolera," *El Nacional*, December 2, 1970, Film NC 534, Newspaper Microfilm Reading Room, Widener Library, Harvard University, Cambridge, MA.

The Venezuelan Petroleum Congress ended on December 4th, 1970, with calls for a radical change in attitude towards the oil industry, and both Shell and Standard Oil's local subsidiary Creole Petroleum grew weary of this growing oil nationalism.[92] This added pressure for Caldera to carry out a U-turn in Venezuelan oil policy by embracing the previously-rejected notions of economic and resource sovereignty that had been pioneered by Mexico and had gained popularity across Latin America.[93] Caldera thus concluded the Petroleum Congress affirming that he would move the country's oil policy forward with a "clear and firmly nationalist line," "without hesitation."[94] The Venezuelan National Congress then reached a bipartisan consensus to increase taxes on oil corporations from 52% all the way to 60%—outdoing Libya, Iran, and the Gulf States—and it also introduced bold legislation that enabled the government to fix tax-reference oil prices unilaterally, without any need for negotiation or consultation with the companies, retroactively applied to all of 1970.[95] While Standard Oil and Mobil resisted these unprecedented

[92] "No Habrá Acuerdos en el Congreso de Petróleo," *El Nacional*, December 3, 1970, Film NC 534, Newspaper Microfilm Reading Room, Widener Library, Harvard University, Cambridge, MA; "Revuelo en el Congreso Petrolero por las Declaraciones de Hernández Grisanti," *El Nacional*, December 4, 1970, Film NC 534, Newspaper Microfilm Reading Room, Widener Library, Harvard University, Cambridge, MA; "Situación Polémica hoy en el Congreso por el Debate sobre la Reversión de 1983," *El Nacional*, December 4, 1970, Film NC 534, Newspaper Microfilm Reading Room, Widener Library, Harvard University, Cambridge, MA; "Creole y Shell rechazan Declaraciones de Hernández Grisanti," *El Nacional*, December 4, 1970, Film NC 534, Newspaper Microfilm Reading Room, Widener Library, Harvard University, Cambridge, MA; "Nueva Actitud Frente a Industria Petrolera Plantea el II Congreso Venezolano de Petróleo," *El Nacional*, December 6, 1970, Film NC 534, Newspaper Microfilm Reading Room, Widener Library, Harvard University, Cambridge, MA.

[93] For the spread of resource sovereignty as an ideology among OPEC states, see Christopher R. W. Dietrich, *Oil Revolution: Anticolonial Elites, Sovereign Rights, and the Economic Culture of Decolonization*, Global and International History (Cambridge, United Kingdom ; New York, NY, USA: Cambridge University Press, 2017); For Mexico's leading role in promoting a global agenda of economic and resource sovereignty, see Christy Thornton, *Revolution in Development: Mexico and the Governance of the Global Economy* (Oakland, California: University of California Press, 2021).

[94] "El Gobierno Sigue una Línea Clara y Nacionalista en la Cuestión Petrolera," *El Nacional*, December 5, 1970, Film NC 534, Newspaper Microfilm Reading Room, Widener Library, Harvard University, Cambridge, MA; "El Presidente Caldera en la Clausura del II Congreso Venezolano del Petróleo: 'No Habrá de Templarnos el Pulso en Cuanto Signifique Sostener los Legítimos Intereses del Pueblo Venezolano,'" *El Nacional*, December 6, 1970, Film NC 534, Newspaper Microfilm Reading Room, Widener Library, Harvard University, Cambridge, MA.

[95] "Consenso Mayoritario para Aumentar los Impuestos a las Compañías Petroleras," *El Nacional*, December 4, 1970, Film NC 534, Newspaper Microfilm Reading Room, Widener Library, Harvard University, Cambridge, MA; "Subir Impuestos a las Petroleras Aprobó por Unanimidad Comisión Especial del Congreso," *El Nacional*,

moves, OPEC states lauded them for opening the gates to new claims against the multinational corporations.[96] And indeed, on December 9th, 1970, Caldera inaugurated a meeting of OPEC ministers in Caracas, expressing petroleum exporters' joint desire to continue pressing for tax-reference oil price increases—which would be left for a future summit in Tehran.[97] Thus, by the time that Venezuelan Oil Minister Perez La Salvia returned to Washington to continue bilateral oil negotiations on December 17th, 1970, the Nixon administration had begun experiencing a change of heart regarding the logic of a Hemispheric energy security system—and Venezuela's role as an exemplary oil partner.[98]

By January 1971, diplomatic communications from Riyadh and Tehran to Washington began depicting Venezuela as Libya's "radical" sidekick, unlike the reliably "moderate" Saudi and Iranian governments. Both Iranian Finance Minister Jamshid Amouzegar and Saudi Petroleum Minister Ahmed Zaki Yamani made clear their disagreement with OPEC's Caracas resolution and claimed that OPEC states were divided into two camps: the "radical" regimes of Libya, Algeria,

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December 8, 1970, Film NC 534, Newspaper Microfilm Reading Room, Widener Library, Harvard University, Cambridge, MA; "La Cámara de Diputados Aprobó el Proyecto de Reforma Impositiva a las Petroleras," *El Nacional*, December 10, 1970, Film NC 534, Newspaper Microfilm Reading Room, Widener Library, Harvard University, Cambridge, MA.

[96] Warner, "Talk to the International Advisory Committee, Chase Manhattan Bank"; George T. Piercy, Senior Vice President, Standard Oil Company (New Jersey), "Energy's New Realities: Remarks at the Annual Meeting of the Independent Natural Gas Association of America in San Francisco," October 25, 1971, 4K767, Exxon Corporation, Speeches by Executives, 1970-1972, ExxonMobil Historical Collection, Briscoe Center for American History, University of Texas at Austin, Austin, TX; John Kenneth Jamieson, Chairman and CEO, Standard Oil Company (New Jersey), "Remarks at Trustees' Meeting at MIT," October 8, 1971, 4K767, Exxon Corporation, Speeches by Executives, 1970-1972, ExxonMobil Historical Collection, Briscoe Center for American History, University of Texas at Austin, Austin, TX.

[97] "El Dr. Caldera Inaugurará Conferencia de la OPEP a Nivel de Ministros de los 10 Países Miembros," *El Nacional*, December 6, 1970, Film NC 534, Newspaper Microfilm Reading Room, Widener Library, Harvard University, Cambridge, MA; "Aumento General de Precios Propuesto a la Conferencia de la OPEP," *El Nacional*, December 9, 1970, Film NC 534, Newspaper Microfilm Reading Room, Widener Library, Harvard University, Cambridge, MA.

[98] "El Jueves Comienzan Venezuela y EE.UU. sus Discusiones Petroleras," *El Nacional*, December 15, 1970, Film NC 534, Newspaper Microfilm Reading Room, Widener Library, Harvard University, Cambridge, MA; "Paper Prepared by the National Security Council Staff," January 24, 1971, *FRUS*, Vol. XXXVI, Doc. 80.

Iraq, and Venezuela, and the "moderate" regimes of Iran, Saudi Arabia, Kuwait, and the other Gulf monarchies. Venezuela's raising of its oil corporate tax rate to 60% had set an attractive precedent for other Middle Eastern states, and Saudi Arabia was finding it difficult to contain the wave of enthusiasm that had ensued among oil producing countries.[99] This came right when the multinationals were demanding a new round of negotiations with OPEC to curb the demands laid out in the Caracas resolution. The companies sent a letter calling for a global settlement between a "*Front Uni*" of oil companies and the OPEC member states.[100] This was understood as an attempt by the companies to reverse their losses in bargaining power vis-à-vis OPEC: the oilmen believed that they could sow discord among the cartel's members, exploit their tensions and potentially break the organization apart. However, neither Amouzegar nor Yamani were duped by these calls, and they insisted that, if the oilmen kept to this strategy, Iran and Saudi Arabia would have no other choice but to side with the "radicals" and preserve OPEC's integrity.[101]

Instead, the Iranian and Saudi ministers recommended that the oil companies launch separate, independent rounds of negotiations with OPEC's members: negotiations in Tripoli led by the North African "radicals,"[102] and in Tehran with the Gulf "moderates."[103] These ministers imagined that the companies would not meet Qaddafi's stringent demands and the Tripoli negotiations would break apart—thus weakening these conservative monarchies' revolutionary

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[99] "Telegram From the Under Secretary of State (Irwin) to the Department of State," January 18, 1971, *FRUS*, Vol. XXXVI, Doc. 74; "Telegram From the Under Secretary of State (Irwin) to the Department of State," January 19, 1971, *FRUS*, Vol. XXXVI, Doc. 75.

[100] Yergin, *The Prize*, 563.

[101] "Paper Prepared by the National Security Council Staff," January 24, 1971, *FRUS*, Vol. XXXVI, Doc. 80.

[102] The Tripoli negotiations included Libya and Algeria as well as Saudi Arabia and Iraq, which used pipelines to export through the Mediterranean; they did not include Venezuela.

[103] "Telegram From the Under Secretary of State (Irwin) to the Department of State," Doc. 74; "Telegram From the Under Secretary of State (Irwin) to the Department of State," Doc. 75.

rivals—all while the Gulf countries would be rewarded for their moderation with a new set of even more favorable oil price terms. And indeed, separate negotiations did take place in Tehran and Tripoli. In February 1971, the Gulf Committee managed to extract significant concessions from the oil companies: the minimum share of profits for the Gulf governments was officially set at 55%, the price of oil was increased by 35 cents per barrel, and the Gulf countries agreed to a five-year freeze in oil prices. However, this victory quickly turned sour when the Libyan oil minister—via intimidation and threats of embargoes and expropriations—managed to force a 90-cent oil price increase upon the companies. The "radical" regimes of Libya and Algeria had outmaneuvered their Gulf rivals, who were bound to a less favorable agreement for five years. The "moderates" felt betrayed, and the Gulf agreement risked imperilment.[104]

With the Gulf's moderation unrewarded, the North African radicals grew even more emboldened: on December 7th, 1971, Qaddafi nationalized British Petroleum's assets in Libya, and one week later, Boumedienne nationalized French national oil company Elf-ERAP's oil and gas production in Algeria. Both leaders framed their actions in anticolonial terms: Boumediene saw the nationalization of French hydrocarbon assets as a long-overdue step in bringing Algeria's revolutionary war of independence to fruition, and Qaddafi claimed to be using the "oil weapon" to defend the "Arab cause" against British colonialism.[105] In fact, when the United Kingdom granted independence to the United Arab Emirates, Qatar and Bahrein in the previous months, Iran unilaterally seized the islands of Abu Musa and the Greater and Lesser Tunbs—claimed by the

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[104] Yergin, *The Prize*, 564–65.

[105] For overviews of Algeria's and Libya's oil policies and nationalizations during the early 1970s, see Ali Aïssaoui, *Algeria: The Political Economy of Oil and Gas*, The Political Economy of Oil Exporting Countries 5 (Oxford: University Press for the Oxford Institute for Energy Studies, 2001); Hocine Malti, *Histoire secrète du pétrole algérien* (Paris: La Découverte, 2012); Dirk J. Vandewalle, *Libya since Independence: Oil and State-Building* (Ithaca, N.Y.: Cornell University Press, 1998); Ronald Bruce St John, *Libya: From Colony to Independence* (Oxford: Oneworld, 2008).

UAE. Qaddafi charged the U.K. with "collusion" in this Persian seizure of "Arab land," and retaliated by nationalizing British assets in Libya. The multinational companies responded by holding a united front against Libya, with the diplomatic support of both the U.K. and the U.S.[106]

But Western diplomatic clashes with Tripoli's revolutionary junta once again coincided with new nationalist policies across the ocean in Caracas—once again evoking the specter of a radical oil front from the Caribbean to North Africa.[107] In fact, like other OPEC countries, the Venezuelan government was growing increasingly weary of the mounting inflation in international markets—which propagated in a fixed interest rate regime.[108] Besides, since August 1971, the world had slid into a monetary crisis: growing trade deficits had placed the U.S. balance of payments under rising stress, and with the worldwide circulation of payments and loans in dollars—especially in Europe's so-called Eurodollar markets—U.S. gold reserves had become insufficient to convert all the world's dollars into gold at the official parity of $35 per ounce. Thus, Nixon opted for monetary flexibility instead of implementing recessionary or deflationary policies: without any warning, he suspended the dollar's convertibility to gold—effectively bringing the post-war Bretton Woods system to an end. By December 1971, it had become clear that the dollar needed to be devaluated, and in the so-called Smithsonian Agreements, the United States, Western

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[106]It is also thought that the references to the Abu Mussa and Tumbs Islands provided cover for a more self-interested reason for BP's nationalization: a debt dispute between after the U.K. aborted the sale of a missile defense system to Libya's revolutionary government. Yergin, *The Prize*, 566; "Memorandum From the Executive Secretary of the Department of State (Eliot) to the President's Assistant for National Security Affairs (Kissinger)," January 20, 1972, *FRUS*, Vol. XXXVI, Doc. 107; "Memorandum of Conversation: International Oil Industry's Future," January 3, 1972, *FRUS*, Vol. XXXVI, Doc. 104.

[107] "Telegram From the Embassy in Venezuela to the Department of State," December 23, 1971, *FRUS*, Vol. XXXVI, Doc. 103.

[108] "Para Fijar Precios del Petróleo el Gobierno Tomará en Cuenta la Inflación en el Mercado Internacional, dijo Pérez la Salvia," *El Nacional*, December 2, 1971, Film NC 534, Newspaper Microfilm Reading Room, Widener Library, Harvard University, Cambridge, MA; "Nueva Estructura de Precios Fijará la OPEP Ante Crisis Monetaria," *El Nacional*, December 7, 1971, Film NC 534, Newspaper Microfilm Reading Room, Widener Library, Harvard University, Cambridge, MA.

Europe, and Japan agreed to devaluate the dollar by 8.5% with respect to gold.[109] However, for an oil-producing country like Venezuela, which derived over 80% of its government income from oil exports in U.S. dollars that constituted most of its foreign exchange reserves, this "Nixon Shock" came as a severe monetary blow: overnight, it shrunk the size of its oil income and central bank reserves.[110]

Venezuelan Oil Minister Perez La Salvia thus announced that the questions of oil prices and monetary policy could no longer be treated separately, as they were two sides of the same coin. Caldera's government initially sought a small increase in the price of oil—of about 10 cents.[111] However, the congressional opposition accused the government of selling-out and pushed it to at least catch up with Persian Gulf countries' previous 35-cent price increase.[112] After all, the world economic outlook had changed, and the international monetary crisis had once again revealed that Venezuela did not hold the reins of its economic destiny: the value of its oil rent and foreign exchange reserves depended on decisions made in Washington, D.C., and corporate boards in New

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[109] Historiographical debates abound as to whether the Bretton Woods system had already been doomed by 1971 and its demise was inevitable, or whether the Nixon administration made an active choice to bring it to an end for political reasons. Moreover, the end of Bretton Woods was a deeply contentious process that perceived differently from both sides of the Atlantic, as it granted greater flexibility to U.S. monetary policy while destabilizing the European Community's early process of working towards monetary unity. For a broad array of interpretations from both sides of the Atlantic, see Robert Solomon, *The International Monetary System, 1945-1981*, An updated and expanded ed. (New York: Harper & Row, 1982); Harold James, *International Monetary Cooperation since Bretton Woods* (Washington, D.C.; New York; Oxford, [England]: International Monetary Fund : Oxford University Press, 1996); Francis J. Gavin, *Gold, Dollars, and Power: The Politics of International Monetary Relations, 1958-1971*, New Cold War History (Chapel Hill: University of North Carolina Press, 2004); Duccio Basosi, *Il governo del dollaro: interdipendenza economica e potere statunitense negli anni di Richard Nixon (1969-1973)*, vol. 11, Storia delle relazioni internazionali (Firenze: Polistampa, 2006); Basosi, "The US, Western Europe and a Changing Monetary System, 1969-1979"; Jeffry A. Frieden, *Global Capitalism: Its Fall and Rise in the Twentieth Century, and Its Stumbles in the Twenty-First*, First edition. (New York: W.W. Norton & Company, 2020).

[110] "El Bolívar Seguirá al Dólar en la Devaluación," *El Nacional*, December 14, 1971, Film NC 534, Newspaper Microfilm Reading Room, Widener Library, Harvard University, Cambridge, MA; "Análisis del Banco Central: Dos Terceras Partes de las Reservas Internacionales del País Están en Dólares," *El Nacional*, December 17, 1971, Film NC 534, Newspaper Microfilm Reading Room, Widener Library, Harvard University, Cambridge, MA.

[111] "10 Centavos de Dólar de Aumento Promedio en los Nuevos Precios Petroleros," *El Nacional*, December 12, 1971, Film NC 534, Newspaper Microfilm Reading Room, Widener Library, Harvard University, Cambridge, MA.

[112] "Telegram From the Embassy in Venezuela to the Department of State."

York and London decided how much oil the country could pump. For opposition figures such as left-leaning Senator Carlos D'Ascoli and the "Father of OPEC" Juan Pablo Pérez Alfonzo, the only answer was for Venezuela to seize full sovereignty over its oil industry: only a radical increase in oil prices could make up for the dollar's loss of value, and the country had to fully review its allegedly harmful trade agreements with the United States.[113] Thus, the Christian Democratic government and its Social Democratic opposition became involved in a "more nationalist than thou" contest, each seeking to outdo the other in proving their patriotic credentials and political boldness: the price hike increased from 10 cents to 14—in line with inflation and the dollar's devaluation—but political pressure then continued mounting for it to reach 20, 27, 30, and finally 40 cents. For observers such as Anibal Martinez—former OPEC official and Secretary of the National Front for the Defense of Petroleum, a local interest group—the oil price increase had lost any of its economic, monetary, or technical rationale: it had become a matter of "pure pride" and national vanity for Venezuelan politicians to want to outperform Libya—a country with very different economic, demographic, industrial, political, and technological characteristics. Venezuela lacked the leverage that Libya had over its key market in Europe, and its oil was much costlier, so corporate backlash and market realities would reduce the country's oil production even further, and "nowhere abroad will anyone purchase [Venezuelan] crude." He thus told politicians to "get their heads off the clouds."[114]

[113] "Defendamos con Inteligencia y Firmeza el Patrimonio Petrolero, Palabras del Doctor Francisco Carrillo Batalla, en la Cámara de Diputados, el 15 de Diciembre 1971," *El Nacional*, December 19, 1971, Film NC 534, Newspaper Microfilm Reading Room, Widener Library, Harvard University, Cambridge, MA; "La Compensación al Bolívar por Devaluación del Dólar Debe Buscarse en los Precios del Petróleo," *El Nacional*, December 20, 1971, Film NC 534, Newspaper Microfilm Reading Room, Widener Library, Harvard University, Cambridge, MA.

[114] "El Ministro Pérez La Salvia Negó Haber Hablado de 10 Centavos Como Índice del Aumento de Precios," *El Nacional*, December 17, 1971, Film NC 534, Newspaper Microfilm Reading Room, Widener Library, Harvard University, Cambridge, MA; "Surgen Presiones Políticas en la Decisión Sobre Precios del Petróleo, Declara Aníbal Martínez," *El Nacional*, December 17, 1971, Film NC 534, Newspaper Microfilm Reading Room, Widener Library, Harvard University, Cambridge, MA; "Tres Factores Adversos Presionan Sobre la Fijación de los Precios Petroleros, Opinan Expertos de la Industria Privada," *El Nacional*, December 17, 1971, Film NC 534, Newspaper

But to no avail: as Caldera moved forward with the 40-cent price hike, pressure against the companies reached an unprecedented momentum—with new measures going far beyond the question of prices. The Venezuelan government unexpectedly decreed that, if global market forces were pushing multinational oil companies to divest and shift their production to the Middle East, this legitimized state intervention: the tax reference price increase came accompanied with a decree on production programing, according to which companies were no longer allowed to produce according to global calculations on marginal costs and tanker rates across their international network of oilfields. Instead, the Venezuelan government would be the sole entity with the power to dictate where and when they would produce, explore, and invest, and which volumes they would export to which countries. Venezuela had thus used its democratic institutions to rebel against the forces of capitalist globalization to achieve direct sovereign control over its oil production: it did not want its main source of income—the cornerstone of its industrialization, welfare programs and social contract—to be imperiled by international corporations that did not hold Venezuela's national interest at heart. Oil Minister Perez La Salvia thus triumphally affirmed that Venezuela had finally "achieved direct control over its oil production." Unsurprisingly, however, the oilmen disapproved.[115]

Immediately, Standard Oil of New Jersey again lumped Venezuela with Libya as the leader of an anti-corporate global oil insurgency. Its local subsidiary Creole Petroleum claimed that the

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Microfilm Reading Room, Widener Library, Harvard University, Cambridge, MA; "La Cámara de Diputados Recomendó Aumentar los Precios del Petróleo en no Menos de 40 Centavos por Barril," *El Nacional*, December 21, 1971, Film NC 534, Newspaper Microfilm Reading Room, Widener Library, Harvard University, Cambridge, MA.

[115] "Telegram From the Embassy in Venezuela to the Department of State"; "Nueva Política de Precios Petroleros para la Fijación de los Valores de Exportación," *El Nacional*, December 22, 1971, Film NC 534, Newspaper Microfilm Reading Room, Widener Library, Harvard University, Cambridge, MA; "Nuevo Precio del Dólar Petrolero Eleva los Valores de Exportación en Casi 40 Centavos por Barril," *El Nacional*, December 22, 1971, Film NC 534, Newspaper Microfilm Reading Room, Widener Library, Harvard University, Cambridge, MA; "Venezuela Ha Llegado al Control Directo de su Producción Petrolera, Afirma Pérez la Salvia," *El Nacional*, December 23, 1971, Film NC 534, Newspaper Microfilm Reading Room, Widener Library, Harvard University, Cambridge, MA.

Caribbean country's legislation was so damaging to its interests that it "[was] unacceptable and must be opposed even at [the] cost of showdown." If not, Middle Eastern countries would emulate Venezuela, adding "more oil than could possibly be sold worldwide."[116] Standard Oil Chairman J.K. Jamieson thus told the State Department that he would challenge the Venezuelan legislation in the courts. Given that Venezuela had previously acted as a pioneer emulated by Middle Eastern states (for instance, with the fifty-fifty split of profits and the founding of OPEC), the principle of production programming could also spread to the Mediterranean and the Gulf, dangerously limiting multinational oil companies' commercial freedoms. And Venezuela's boldness also imperiled the oil companies' Tehran agreement with OPEC's Gulf members, and particularly the five-year freeze in oil prices. Hence, if he lost in the courts, Jamieson would treat Venezuela just like he had done in Libya: he would refuse to pay and clash head-on with this "radical" regime. For the oil executives, it mattered little whether calls for control over oil production and higher prices came from conservative nationalist democrats or socialist anticolonial revolutionaries: by challenging the oil firms' freedom to manage their production as they saw fit, Venezuela was on par with Libya as a dangerous regime that threatened corporations' commercial liberties with its assault on the international rights of capital.[117]

Nonetheless, it is crucial to understand that Caldera's motivations were incommensurably distinct from Qaddafi's. While Libya's anticolonial revolutionary leader was seeking revenge against Western regimes for their colonialist past, Caldera remained a center-right moderate conservative trying to bring his country closer to the United States. The U.S. Embassy in Caracas understood that Venezuela was trying to protect the Western Hemispheric Preference system from

[116] Embassy in Caracas to Department of State, Telegram 7600, December 28, 1971, RG 59, Central Files 1970–73, PET 6 VEN, U.S. National Archives and Records Administration.

[117] "Memorandum of Conversation: International Oil Industry's Future."

the decisions of the multinational oil corporations—the advocates of Middle Eastern oil and full import liberalization. Given the multinational oil companies' declining investments in Venezuela, and their reluctance to increase exports from the Caribbean to the U.S., they were threatening the viability of a U.S.-Venezuelan special oil partnership. Thus, the Caracas government took matters into its own hands—stripping decision power on exports and investments away from the companies. Far from an anti-Western move, this was an attempt by Venezuela to protect its position as the U.S.'s main oil partner. In this sense, Venezuelan oil nationalism, albeit fervently anti-corporate, remained steadfastly pro-American.[118]

But despite Caldera's intentions to preserve the framework of Western Hemispheric Preference, U.S.-Venezuelan relations continued unravelling. In an unexpected move, just weeks after its controversial oil legislation, Venezuela unilaterally abrogated its decades-old Reciprocal Trade Agreement with the United States—which allegedly embodied both countries' unequal terms of trade. While policies of Import Substitution Industrialization (ISI) had nullified the effects of tariff concessions on most goods since 1959, the treaty still stipulated the quota and tariff system for crude oil exports to the U.S. With the treaty's denunciation, Venezuela was set to lose its preferential tariffs to the U.S., which would generate a four-fold increase in duties for its U.S.-bound oil shipments: the United States would have to pay over 50 million additional dollars to keep Venezuelan oil imports at the 1970 levels. While State Department officials and Kissinger were puzzled by Venezuela's decision to singlehandedly renounce its favorable commercial treatment by the U.S., this move effectively amounted to a "self-imposed ultimatum" regarding Washington's seriousness on Western Hemispheric Preference: Caracas and Washington would

[118] "Telegram From the Embassy in Venezuela to the Department of State."

have to sort out a new commercial partnership by June 1972—by which time the treaty's abrogation would come into effect.[119]

Caldera thus turned his grievances against the oil companies into a confrontation with the Nixon administration. According to Minister Perez La Salvia, the U.S. government was acting to its own detriment:

> United States experts try to convince their government that they can be self-sufficient, that they do not have to be dependent on our oil… This policy is contrary to all estimates… The United States is ill-advised and I believe it is being engineered by interests that run counter to those of the government and the people of North America.[120]

Clearly, these "interests" and "experts" were references to the multinational oil firms—whose enmity with the Venezuelan government had reached unprecedented heights. Caldera seemed convinced that "the major oil corporations [were] mounting a gigantic conspiracy of reprisal against Venezuela."[121] The U.S. ambassador in Caracas took charge of negotiating a new mutually beneficial petroleum partnership with Caldera, but trust had already been broken: Caldera had read veiled threats into Nixon's letter mandating these negotiations, and intimated that the U.S. government was "under the thumb of the oil companies." Meanwhile, the U.S. Ambassador feared that Venezuelan authorities saw the U.S. government and the corporations as two sides of the same coin—and reminded Caldera that "he was dealing with Washington and not Standard of New Jersey in New York." While both sides agreed that the climate of mutual confidence had deeply suffered and was in urgent need of repair, the American Ambassador set his government's new conditions for a special U.S.-Venezuelan partnership under the Hemispheric Preference system:

[119] "Memorandum From the Executive Secretary of the Department of State (Eliot) to the President's Assistant for National Security Affairs (Kissinger)," January 12, 1972, *FRUS*, Vol. E–10, Documents on American Republics, 1969–1972, Doc. 678.

[120] "Telegram 1073 From the Embassy in Venezuela to the Department of State, 1620Z," February 9, 1972, *FRUS*, Vol. E–10, Documents on American Republics, 1969–1972, Doc. 679.

[121] "Telegram 1073 From the Embassy in Venezuela to the Department of State, 1620Z."

The U.S. was "in favor of a special relationship for Venezuela if in return – and only in return – [U.S. oil companies] received fair treatment." Washington effectively sided with the corporations against Caracas, spelling dire prospects for the negotiations' success—and for the fate of a protectionist oil trade regime of Western hemispheric preference.[122]

However, Caldera misunderstood the companies' political clout; as they singled Venezuela out as a radical regime on par with Libya, his country began to appear as a thorn on the United States' side. As the threat of the Cuban Revolution diminished in the Americas, Venezuela's political maneuvers appeared erratic, clashing with the interests of global capitalists and destabilizing Nixon's energy strategy. A strategic shift from Venezuela to the Persian Gulf—from democratic unpredictability to autocratic stability—started to unfold. Thus, the logic of the U.S.-Venezuelan oil partnership—and of Pan-Americanism as a cornerstone of U.S. energy security—also began to unravel. And yet, despite this diplomatic fallout, Western Hemispheric Preference remained the order of the day. Certainly, the January 1972 OECD summit singled out Venezuela as the second most problematic player in the oil market—whose actions were the "most ominous in principle"—and backed the oil companies' intention to resist Venezuela's legislation. Along with Libya's nationalization of BP, Venezuela's oil legislation was branded among "[the] most dangerous developments of all."[123] But the State Department still resisted any shift away from a hemispheric vision of American energy security. By March 1972, the recommended solutions to

[122] "Telegram 1609 From the Embassy in Venezuela to the Department of State, 1525Z," March 2, 1972, *FRUS*, Vol. E–10, Documents on American Republics, 1969–1972, Doc. 680.

[123] "Telegram From the Mission to the Organization for Economic Cooperation and Development to the Department of State," January 12, 1972, *FRUS*, Vol. XXXVI, Doc. 104.

the imminent energy crisis remained unchanged: the Arab world remained inherently unreliable, so an agreement had to be reached with Venezuela and Canada.[124]

III. Canada's Declaration of Independence: Economic Sovereignty, Environmentalist Activism, and the Demise of Western Hemispheric Preference

With relations with Venezuela reaching a low point, the Nixon administration faced added pressure to find a new energy arrangement with Canada. This could come, for instance, with the integration of the U.S. and Canadian energy markets through a North American Continental Oil Policy, which would allow unlimited volumes of Canadian oil to flow duty-free into the United States. U.S. policymakers also anticipated that new oil discoveries in the Prudhoe Bay in the Arctic shores of Northern Alaska would breathe new life into American oil production, potentially even reducing the need for imports. Hence, with resource nationalism tightening its hold over OPEC, perhaps the answer to the United States' energy predicament lay in the Great North. And yet, the Nixon administration faced a whole new gamut of unexpected impasses: transnational environmental activists paralyzed Alaskan oil production at a moment when Canadian Prime Minister Pierre Elliott Trudeau moved to assert Canada's economic sovereignty and independence from the United States. The Canadian government's actions brought North American oil negotiations to a standstill, dealing a final blow to any plans for Hemispheric Preference, and opening the way for America's pivot to the Persian Gulf.

Throughout the 1960s, Canada had maintained a National Oil Policy that split the country into two separate energy markets: the oil-producing West and the oil-importing East. Canadian oil

[124] "Memorandum From Secretary of State Rogers to President Nixon," March 10, 1972, *FRUS*, Vol. XXXVI, Doc. 116.

production was concentrated in the western province of Alberta, which was connected via pipelines to Toronto and Chicago through the Canadian Prairie and the U.S. Midwest. While Alberta exported about half of its production into the United States, the other half remained in Canada and fueled the vast area west of the Ottawa Valley—from the Pacific coast of British Columbia through central Ontario. East of Ottawa, however, Quebec, Newfoundland, and the Maritime Provinces of Nova Scotia, New Brunswick, and Prince Edward Island relied exclusively on cheap, duty-free imports of foreign crude—mainly from Venezuela and the Middle East—most of which were refined in Quebec. This meant that, despite producing more oil than it consumed, Canada still imported 50% of its oil consumption, and the Eastern seaboard remained disconnected from the Western oil fields: no pipeline reached Montreal from Alberta. The federal government in Ottawa was thus striking a delicate balance between the diverging needs of its provinces. Quebec's industrial base, for instance, benefited from lower energy costs through cheaper imported oil, but the province was totally vulnerable to a foreign oil embargo. Meanwhile, Alberta had built its economy and provincial budget around oil exports to the United States, and its petroleum industry was overwhelmingly made up of local subsidiaries of American—often Texan—firms, which gave it a decidedly pro-U.S. posture.[125]

Additionally, Canadian oil exports south of the border were only bound by voluntary quotas, but they remained subjected to U.S. tariffs that limited oil companies' profits. Thus, the Albertan oil industry's interest lay in expanding its access to the U.S. market by exporting beyond the voluntary quota and seeking the removal of all tariffs and duties. After all, unlike the United

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[125] Dome Petroleum Limited, "Arguments Favouring Negotiation of a Continental Oil and Gas Policy," March 1969, MG 26 O7, Vol. 381, Energy Correspondence, 1968-1972, Library and Archives Canada (LAC), Ottawa, ON, Canada; "Canadian Oil Importation Blocks Continental Oil Policy," *Oilweek*, April 13, 1969, Pierre Elliott Trudeau Fonds, MG26 O7, Vol. 381, Energy Correspondence, 1968-1972, Library and Archives Canada (LAC), Ottawa, ON, Canada.

States, Canada only produced oil at 10% of capacity, meaning that it could easily ramp up its output to meet U.S. demand. Tensions thus began to brew between the North American neighbors in the late 1960s, when Canada began to recurrently exceed its voluntary quota. In 1967, Udall pressured Canada to abide by its export allowance—to great protests from the federal government in Ottawa, the provincial Albertan government in Edmonton, and the oil headquarters in Calgary. But in September 1968, Canada had already exceeded its yearly quota, and the Johnson administration threatened to bring it under mandatory import controls.[126] When Nixon launched the review of U.S. oil policy, he brought these threats to fruition: to pressure Ottawa into bilateral negotiations, he unilaterally placed quantitative limits on Canadian oil imports pending a comprehensive energy agreement between both countries. This drew the ire of Canadian Energy Minister Joe Greene, who claimed that Canadians would "never negotiate anything with a gun at their head." Accordingly, relations between President Richard Nixon and Prime Minister Pierre Elliott Trudeau quickly turned sour.[127]

To be sure, this was not a turn away from Hemispheric Preference. On the contrary, Nixon's goal was to establish a Continental Oil Policy in which the United States and Canada integrated their energy markets. But this could not be done by simply removing tariffs and quotas for Canada, as Albertan political and industry leaders might have desired: instead, both countries had to harmonize their energy policies—especially in terms of security of supply. In fact, from Washington's perspective, Ottawa had a major Achilles's heel: the vulnerability that came with its dependence on imports for 50% of its consumption—especially from the Middle East. Canada

[126] Privy Council Office, "Memorandum for the Prime Minister: Oil Exports to the United States"; A. Laframboise to PM Trudeau, "Oil Exports to the USA," April 11, 1969, Pierre Elliott Trudeau Fonds, MG26 O7, Vol. 381, Energy Correspondence, 1968-1972, Library and Archives Canada (LAC), Ottawa, ON, Canada.

[127] "A Tough Reaction," *Montreal Star*, May 29, 1970, Pierre Elliott Trudeau Fonds, MG26 O7, Vol. 381, Energy Correspondence, 1968-1972, Library and Archives Canada (LAC), Ottawa, ON, Canada.

might have considered itself energy self-sufficient: it had vast amounts of spare production capacity, and its oil output exceeded its consumption. However, these numbers did not mean much if Montreal—then the country's most populous metropolitan area and its historically leading economic center—relied exclusively on imported oil. Therefore, if the United States were to integrate its oil market with Canada's, it would also be absorbing Eastern Canada's vulnerability to disruptions in Middle Eastern oil supplies—which defeated the policy's underlying logic. To the consternation of Canadian leaders, the Nixon administration announced in 1970 that, without an accompanying revision of Canadian oil policy, it could not consider imports from Alberta to be truly secure—and the country risked being permanently targeted by import controls.[128]

Thus, like Nixon, Trudeau launched a full reassessment of Canada's energy policy, as well as of its relations with the United States—and not with the results expected in Washington.[129] But doing so raised heated debates that threatened to undermine the delicate balance between Canada's linguistically, economically, and culturally distinct provinces, most notably between the "petro-province" of Alberta and the soon-to-be separatist francophone province of Quebec. For instance, in Edmonton and Calgary, Albertan politicians and oil executives supported a Continental Oil

[128] U.S. Senator Walter Mondale to President Nixon, March 25, 1970, Pierre Elliott Trudeau Fonds, MG26 O7, Vol. 381, Energy Correspondence, 1968-1972, Library and Archives Canada (LAC), Ottawa, ON, Canada; William E. Timmons, White House Assistant to the President to Senator Walter Mondale, April 22, 1970, Pierre Elliott Trudeau Fonds, MG26 O7, Vol. 381, Energy Correspondence, 1968-1972, Library and Archives Canada (LAC), Ottawa, ON, Canada; U.S. Senator Walter Mondale to President Nixon, May 26, 1970, Pierre Elliott Trudeau Fonds, MG26 O7, Vol. 381, Energy Correspondence, 1968-1972, Library and Archives Canada (LAC), Ottawa, ON, Canada.

[129] Jack Davis, Minister of Fisheries and Forestry to Mr. Robertson, April 15, 1969, Pierre Elliott Trudeau Fonds, MG26 O7, Vol. 381, Energy Correspondence, 1968-1972, Library and Archives Canada (LAC), Ottawa, ON, Canada; David Thomson to PM Trudeau, "Oil and Gas," October 30, 1969, Pierre Elliott Trudeau Fonds, MG26 O7, Vol. 381, Energy Correspondence, 1968-1972, Library and Archives Canada (LAC), Ottawa, ON, Canada; "Energy Policy Study: Summary," April 8, 1971, Alastair Gillespie Fonds, R1526, Vol. 318, Energy Policy Review, 1970-1972, Library and Archives Canada (LAC), Ottawa, ON, Canada; J.J. Greene, Minister of Energy, Mines and Resources, "Memorandum to Cabinet: Energy Policy Study," April 8, 1971, Alastair Gillespie Fonds, R1526, Vol. 318, Energy Policy Review, 1970-1972, Library and Archives Canada (LAC), Ottawa, ON, Canada; J.J. Greene, Minister of Energy, Mines and Resources to PM Trudeau, June 15, 1971, Alastair Gillespie Fonds, R1526, Vol. 318, Energy Policy Review, 1970-1972, Library and Archives Canada (LAC), Ottawa, ON, Canada.

Policy. Top executives in companies such as Husky Oil, Oil Petroleum Ltd., Ranger Oil, and Dome Petroleum saw an integrated North American energy market as the natural next step for Canada's National Oil Policy: their greatest market lay south of the 49th parallel, and they hoped for a massive expansion of their exports into the United States—without any tariffs, duties, or quotas. Meanwhile, the ban on imported oil west of Ottawa had to be maintained, and any change in Canada's oil policy had to go in the direction of expanding market access for Canadian petroleum into Quebec and the Maritimes—which went well in line with the views of top U.S. officials such as Nixon's energy advisor Peter Flanigan.[130] Thus, for Ranger Oil President H.M. Pierce, "there [was] probably no oil consuming area in the world more vulnerable to being shut off from its prime energy source than eastern Canada, especially Montreal," which had to be opened to Albertan oil.[131] For Quebec, however, the main interest lay in expanding its lucrative refineries by bringing imported petroleum west of Ottawa deeper into Ontario—which it had started doing in 1970 in contravention to the National Oil Policy. And yet, despite their marked preference for duty-free imports of foreign oil—which benefited the province's manufacturing industry—Quebecois leaders still expected that, in case of cutoff in foreign oil supplies, any shortage would be equitably shared among all Canadians. As to the other Canadian provinces, they were not indifferent to these matters: for instance, British Columbia and Ontario could also potentially benefit from building refineries and importing cheaper foreign oil, even if this would harm Alberta's economy. Thus, far

[130] Dome Petroleum Limited, "Arguments Favouring Negotiation of a Continental Oil and Gas Policy"; J.P. Gallagher, Oil Petroleum Limited to PM Trudeau, March 15, 1969, Pierre Elliott Trudeau Fonds, MG26 O7, Vol. 381, Energy Correspondence, 1968-1972, Library and Archives Canada (LAC), Ottawa, ON, Canada; "Husky Chairman Calls for Common Market," *Oilweek*, April 13, 1969, Pierre Elliott Trudeau Fonds, MG26 O7, Vol. 381, Energy Correspondence, 1968-1972, Library and Archives Canada (LAC), Ottawa, ON, Canada; J.D. Winzenried, Vice-President, Coastal States Gas Producing Company to J. M. Pierce, President, Ranger Oil (Canada) Ltd, April 22, 1969, Pierre Elliott Trudeau Fonds, MG26 O7, Vol. 381, Energy Correspondence, 1968-1972, Library and Archives Canada (LAC), Ottawa, ON, Canada.

[131] "Canadian Oil Importation Blocks Continental Oil Policy."

from being a purely technical matter, oil import policy was a hotly contentious domestic political issue for Canada.[132]

In Ottawa, Trudeau's cabinet was wary of inflaming any debates that might threaten the country's national unity. For instance, in Foreign Minister Ivan Head's words, "Not a person in Western Canada is prepared to understand why western oil is shut out of Montreal at the same time that the West is required, by tariffs, to bring Ontario and Quebec manufactured goods for the good of Canada."[133] In this sense, any threat to Albertan oil interests could raise the specter of Western separatism—but the flipside was perhaps even more tangible for Quebec. After all, the francophone province had seen the recent surge of a serious separatist movement. In November 1967, politician, journalist, and future Premier of Quebec René Lévesque launched the *Mouvement Souveraineté-Association* which envisioned an independent and sovereign state of Quebec in a political and economic association with the rest of Canada—an idea further developed in his 1968 manifesto *Option Québec.* This became the political platform of the new sovereigntist *Parti Québecois*, which gained its first provincial seats in 1970. Then, in October of the same year, a terrorist crisis shocked the country when the militant separatist *Front de Libération du Québec* kidnapped and killed Labor Minister Pierre Laporte, leading Trudeau to invoke the War Measures

[132] Alberta Premier Harry E. Strom, to PM Trudeau, "Alberta Government's Views Concerning Oil Industry," November 3, 1969, Pierre Elliott Trudeau Fonds, MG26 O7, Vol. 381, Energy Correspondence, 1968-1972, Library and Archives Canada (LAC), Ottawa, ON, Canada; J.P. Gallagher, Oil Petroleum Limited to Quebec Premier Jean-Jacques Bertrand, November 28, 1969, Pierre Elliott Trudeau Fonds, MG26 O7, Vol. 381, Energy Correspondence, 1968-1972, Library and Archives Canada (LAC), Ottawa, ON, Canada; M. A. Crowe to PM Trudeau, "Maintenance of the 'National Oil Policy,'" May 7, 1970, Pierre Elliott Trudeau Fonds, MG26 O7, Vol. 381, Energy Correspondence, 1968-1972, Library and Archives Canada (LAC), Ottawa, ON, Canada.

[133] Jack Davis, Minister of Fisheries and Forestry to PM Trudeau, "Re: An Oil Policy for Canada," April 3, 1969, Pierre Elliott Trudeau Fonds, MG26 O7, Vol. 381, Energy Correspondence, 1968-1972, Library and Archives Canada (LAC), Ottawa, ON, Canada.

Act, suspend civil liberties, and carry out hundreds of arrests. In this sense, the Prime Minister could not take the country's national unity for granted.[134]

Moreover, there remained several major unanswered questions that could seriously alter any energy policy calculations. For instance, Canada had made some major oil discoveries in the Arctic—in the Mackenzie River Delta on the Beaufort Sea, on federal lands inhabited by native First Nations in the Yukon and Northwestern Territories—and it had high hopes for further offshore discoveries in Nova Scotia and Newfoundland's Atlantic seabed. These could be gamechangers for the country's hydrocarbon sector, raising new strategic questions: Would the arrival of Arctic oil make a West-East Trans-Canadian pipeline into Quebec more economically attractive? Could Atlantic offshore oil and gas significantly reduce the Eastern Seaboard's import dependency? Thus, with these looming questions, the Trudeau government decided to take a hard line on U.S. negotiations, delaying any agreement with the Nixon administration for the foreseeable future.[135] And, despite the tremendous power disparity between both countries, the U.S. cabinet also understood that Canada retained significant negotiating leverage over the United States: its unused oil reserves and production capacity far surpassed those of the U.S., and even the thorny question of Quebec could be used as a negotiating chip. After all, with the necessary

[134] For overviews of Quebec's separatist movement and the October Crisis of 1970, see Jane Jacobs, *The Question of Separatism: Quebec and the Struggle over Sovereignty*, 1st ed. (New York: Random House, 1980); Kenneth McRoberts, *Misconceiving Canada: The Struggle for National Unity* (Toronto ; New York: Oxford University Press, 1997); William Tetley, *The October Crisis, 1970: An Insider's View* (Montreal ; Ithaca: McGill-Queen's University Press, 2007); Édouard Cloutier and Guy Bouthillier, *Trudeau's Darkest Hour: War Measures in Time of Peace, October 1970* (Montréal: Baraka Books, 2010); Cara Des Granges, "Finding Legitimacy: Examining Quebec Sovereignty from Pre-Confederation to Present," *International Journal of Canadian Studies* 50, no. 50 (2014): 25–44, https://doi.org/10.3138/ijcs.2014.003.

[135] M.A. Crowe to PM Trudeau, "Memorandum to the Prime Minister, Cabinet Committee on Priorities and Planning: Oil Policy Problems," November 3, 1969, Pierre Elliott Trudeau Fonds, MG26 O7, Vol. 381, Energy Correspondence, 1968-1972, Library and Archives Canada (LAC), Ottawa, ON, Canada; Cabinet Committee on Priorities and Planning, "Record of Committee Decision: 'Oil Policy Problem,'" November 6, 1969, Pierre Elliott Trudeau Fonds, MG26 O7, Vol. 381, Energy Correspondence, 1968-1972, Library and Archives Canada (LAC), Ottawa, ON, Canada.

infrastructure, Alberta's oil could very well flow East instead of South: Quebec and the Maritimes could make up for a loss of Canada's share in the U.S. market, which would enhance Canadian political and economic unity. Trudeau thus did not cave under American pressure for a rapid agreement—opting instead to conduct a thorough multi-year energy and foreign policy review to devise a new strategy that would first and foremost serve Canada's national interest.[136]

Moreover, the ostensibly U.S. domestic issue of expanding oil production into Alaska's Arctic frontiers proved to be a point of contention among the North American neighbors. Since 1968, the United States had made new oil discoveries in the inhospitable Northern Alaskan shores of the Prudhoe Bay, which the Nixon administration hoped could reverse the decline in U.S. oil production and curb the country's growing import dependence. However, these deposits were difficult to exploit and complex to transport into the mainland. Two pipeline routes vied for consideration since 1969: the first, known as the Trans-Alaska Pipeline, would cross Alaska North-South and bring the oil to the Bay of Valdez, close to Anchorage, before seaborne tankers shipped it on to Seattle; the Canadian alternative would traverse the Mackenzie River Valley, through the Yukon and Northwestern Territories into Alberta, before flowing all the way into the Great Lakes region and finally reaching Chicago. But while the Alaskan option was initially resisted by the native Inuit community, it was brought to a halt by a new set of actors—the environmental activists—who would play an increasingly important role in the global politics of oil. In 1969, an oil spill in Santa Barbara's scenic Pacific coast set loose the Unites States' first major environmentalist movement. Thereon, opposition to the Trans-Alaska pipeline became a rallying cry for this cause: allegedly, the project was poorly planned; the companies were insufficiently skilled to carry it on; Alaskan oil was not needed; and, without developing new technologies to

[136] Jack Davis, Minister of Fisheries and Forestry to PM Trudeau, "Re: An Oil Policy for Canada," April 3, 1969.

clean up oil spills in Arctic waters, any accident would be catastrophic. In 1970, U.S. environmentalist groups took their opposition to the Trans-Alaska pipeline to the courts, and despite uncertainty about their potential to win the legal battle, they expected to delay it on procedural grounds for at least two to three years.[137]

But this was not just a domestic American issue: tanker traffic from the Bay of Valdez to Seattle would necessarily cross Canada's territorial waters in the Pacific Northwest, and especially the strong currents of the Juan de Fuca Straits between British Columbia's Victoria Island and Washington State's Puget Sound. Also, California was not alone in having witnessed firsthand the disastrous effects of an oil spill: in February 1970, oil tanker SS Arrow crashed unto a rock in Chedabucto Bay off the coast of Nova Scotia, producing the largest oil spill in Canada's history. Thus, the Canadian public had also become acutely aware of the dangers that oil tanker traffic poses to littoral environments. For British Columbia—whose economy relied heavily on coastal tourism—such an accident could engulf the shoreline of provincial capital Victoria and the Long Beach National Park, compounding an economic disaster upon an ecological catastrophe. The Canadian Wildlife Federation and British Columbian members of parliament thus forged a transnational alliance with U.S. environmentalist groups, joining them in their legal battle against the Trans-Alaskan pipeline in U.S. courts. Still, the Nixon administration remained bent on seeing Alaskan oil production take off by 1972, and it had a marked preference for the Trans-Alaskan pipeline and tanker route.[138]

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[137] Yergin, *The Prize*, 555–56; "Telex 2740 from Washington DC to Ottawa Re: Trans Alaska Pipelines," August 31, 1971, Pierre Elliott Trudeau Fonds, MG26 O7, Vol. 381, Energy Correspondence, 1968-1972, Library and Archives Canada (LAC), Ottawa, ON, Canada.

[138] Henry Alan Lawless, Correspondence Secretary, Office of the Prime Minister to Mr. and Mrs. A. M. McGregor, March 18, 1971, Pierre Elliott Trudeau Fonds, MG26 O7, Vol. 381, Energy Correspondence, 1968-1972, Library and Archives Canada (LAC), Ottawa, ON, Canada; J. O. Dette, President, Canadian Wildlife Federation to PM Trudeau, April 7, 1972, Pierre Elliott Trudeau Fonds, MG26 O7, Vol. 381, Energy Correspondence, 1968-1972, Library and Archives Canada (LAC), Ottawa, ON, Canada.

Ecologists, conservationists, and environmental NGOs such as the Canadian Wildlife Federation remained skeptical of Arctic oil production altogether—with its fragile ecosystem of permafrost underlying tundra, which Albertan and Texan oil extraction techniques were inadequate for. They also sought to protect the land and its wildlife for the native First Nations, which they wished to see playing a leading role in any oil field development within their territories instead of being displaced by a new oil rush. They thus called for a partial moratorium on Northern oil development pending new studies, which the Trudeau government was amenable to.[139] But given Nixon's relentless push to exploit Alaskan oil, the Canadian Wildlife Federation was forced to choose a lesser evil: despite its risks, it deemed the Canadian overland pipeline route to be the ecologically safer way to bring Alaska's oil to market. Trudeau thus forged an alliance with Canadian environmentalist groups to press the Nixon administration to pick the Mackenzie Valley pipeline as the "greener" option for Alaska, which added another layer of complexity to the North American oil talks. For instance, Trudeau could have taken a hard line by denying transit rights altogether to U.S. tankers in Canada's West Coast—a potential show of vindictive blackmail against Nixon.[140] Alternatively, however, he could frame the Canadian route as a new basis for North American cooperation, enabling economies of scale through the joint financing, development, and transport of Arctic hydrocarbons. This course of action could even be aligned

[139] R.C. Passmore, Executive Director, Canadian Wildlife Federation to Jean Chretien, Minister of Indian Affairs & Northern Development, February 13, 1970, Pierre Elliott Trudeau Fonds, MG26 O7, Vol. 381, Energy Correspondence, 1968-1972, Library and Archives Canada (LAC), Ottawa, ON, Canada; R.C. Passmore, Executive Director, Canadian Wildlife Federation, "Crisis in the North," February 13, 1970, Pierre Elliott Trudeau Fonds, MG26 O7, Vol. 381, Energy Correspondence, 1968-1972, Library and Archives Canada (LAC), Ottawa, ON, Canada; Jean Chretien, Minister of Indian Affairs & Northern Development to R.C. Passmore, Executive Director, Canadian Wildlife Federation, March 23, 1970, Pierre Elliott Trudeau Fonds, MG26 O7, Vol. 381, Energy Correspondence, 1968-1972, Library and Archives Canada (LAC), Ottawa, ON, Canada.

[140] J. O. Dette, President, Canadian Wildlife Federation to PM Trudeau, April 7, 1972; "Telex 2740 from Washington DC to Ottawa Re: Trans Alaska Pipelines," August 31, 1971.

with his government's desire to provide new means of economic support to the First Nations of Northern Canada.[141]

But the Canadian route was not free from controversy: beyond its unprecedented ecological requirements, it also highlighted Canada's imbalanced relationship with the United States. The project would require a large influx of U.S. capital and draw both countries tightly together, with Canada even potentially having to grant some extraterritorial rights to the United States along the pipeline.[142] This came right as the Canadian government was revising its foreign policy towards its southern neighbor—a task led by former Ambassador to Washington and Under Secretary of State for External Affairs Edgar Ritchie. Between 1970 and 1972, Ritchie argued that Canadian public opinion had been moving away from the continentalist pull of the United States, favoring instead the promotion of Canada's national and regional distinctions. Hence, if during the 1950s and 1960s most Canadians had supported greater economic, financial, and military integration with the United States—with over half viewing dependence on the U.S. on a positive light—this had changed dramatically at the turn of the new decade. By 1970, Canadians had grown increasingly wary of being absorbed by the neighboring superpower, with 81% strongly opposing a union with the United States. However, given how difficult it was for Anglophone Canada to assert its cultural distinctiveness from the U.S., the preferred area for affirming its sovereignty was the economic sphere: 88.5% of the public wanted Canada to have greater control of its economy, two thirds deemed U.S. investments to be too high, and half were willing to accept lower living standards for the sake of greater economic independence. As for the Francophone Quebecers, fears went a step

[141] J. Austin, Deputy Minister of Energy Mines and Resources to E. A. Ritchie, Under-Secretary of State for External Affairs, September 9, 1971, Pierre Elliott Trudeau Fonds, MG26 O7, Vol. 381, Energy Correspondence, 1968-1972, Library and Archives Canada (LAC), Ottawa, ON, Canada.

[142] J. Austin, Deputy Minister of Energy Mines and Resources to E. A. Ritchie, Under-Secretary of State for External Affairs.

further: the province risked total cultural annihilation if it were to be absorbed by the rest of English-speaking North America. By requiring a large influx of U.S. investments and American ownership over key resources and infrastructure, both the Continental Oil Policy and the Canadian route for Alaskan Oil ran against this economically nationalist turn in Canadian public opinion.[143]

Ritchie thus concluded that Canada was not so different from any other developing country bound to the United States in uneven terms of trade. Like Venezuela, for instance, it exported cheap raw materials like oil, gas, and uranium, and imported expensive, highly technological finished manufactured goods such as cars, which created structural trade deficits. The level of U.S. influence in the Canadian economy was also unparalleled across the industrialized world, with Canada receiving more U.S. investments than all of Europe combined. This had certainly enhanced economic growth in the short term, but it had also inhibited the development of Canadian business, industry, and research in the long run. This situation thus raised "concerns about our vulnerability, dependence, loss of effective control, erosion of identity and national unity," having hindered "the Canadian capacity to control and manage Canadian development in pursuance of national goals."[144] And even the Venezuelan press noticed these parallels, running articles such as "Is Canada Independent?"[145] Thus, Canada's energy policy had to place its long-term needs ahead of those of the United States. Ottawa had to avoid any long-term oil agreement with Washington until it had found a new federal-provincial compromise to ensure Canadian economic independence,

143 "Departmental Study on Canada-U.S.A. Relations, Chapter II, Section B, 'The Present,'" March 17, 1972, A.E. Ritchie Fonds, MG31 E44, Vol. 10, File 6, Canada-U.S.A. Relations: Departmental Study, Speech and Memorandum (2 of 2), Library and Archives Canada (LAC), Ottawa, ON, Canada.

144 "Departmental Study on Canada-U.S.A. Relations, Chapter III, 'Canada-USA Relationship in the '70s,'" March 20, 1972, A.E. Ritchie Fonds, MG31 E44, Vol. 10, File 6, Canada-U.S.A. Relations: Departmental Study, Speech and Memorandum (2 of 2), Library and Archives Canada (LAC), Ottawa, ON, Canada.

145 "¿Es Canadá Independiente?," *El Nacional*, December 14, 1971, Film NC 534, Newspaper Microfilm Reading Room, Widener Library, Harvard University, Cambridge, MA.

resource sovereignty, and national unity.[146] Thus, in November 1971, Trudeau's Cabinet decided upon a complete grand strategic reorientation towards "a deliberate policy of reducing over time Canada's economic vulnerability [towards the U.S.] and of increasing the Canadian capacity for independent action in pursuance of national goals and values."[147]

The Ottawa Cabinet also proceeded to review the country's energy policy, studying competing options that would alter Canada's relationship with the United States as well as the internal balance between energy-consuming Ontario and Quebec and oil-producing Alberta. On one end, for instance, Canada could focus on its own internal East-West consolidation: it could increase the state's control over the petroleum industry and reduce oil prices to redirect Albertan oil towards Ontario and Quebec. Cheap national oil could thus support the expansion manufacturing industries in Eastern Canada against the interests of resource producers in the West. On the opposite end, however, Canada could double down on its North-South integration with the United States by decidedly acting as an export-oriented petrostate and increasing oil prices. This could boost economic growth through resource development in Western Canada, but this deepened market integration with the United States would have few if any benefits for Eastern Canada's manufacturers. An alternative line could also sacrifice growth rates for the sake of ecological improvement. But the preferred line consisted of trying to balance all these priorities: simultaneously stimulating industrial growth, resource exports, environmental sustainability, and Canadian economic sovereignty. The problem, in this case, would be financial, as the state would be unable to raise such large amounts of capital on its own—and could ironically find itself begging

[146] "Departmental Study on Canada-U.S.A. Relations, Chapter III, 'Canada-USA Relationship in the '70s.'"

[147] "Visit to Canada of President Nixon, April 13 to 15, 1972: Canadian Identity and Independence," April 5, 1972, Pierre Elliott Trudeau Fonds, MG26 O11, Vol. 27, File 4, Secret: Canada and the U.S.A.: Economic Relations, 1971-1973, Library and Archives Canada (LAC), Ottawa, ON, Canada.

for U.S. financing. Thus, without any clear path forward and fearing any faux-pas that could imperil the country's national unity by inflaming Albertan or Quebecois separatisms, the Trudeau Cabinet remained paralyzed, with each energy review calling for additional rounds of policy studies, financial assessments, and technical evaluations.[148]

The slow pace of Canadian internal deliberations thus clashed with the urgency of Nixon's need to find a definitive solution to America's oil problem. Overlooking the regional implications of Canadian energy policy, and dismissive of Canada's quest for national independence and economic sovereignty, his administration continued pressing for a quick agreement in which Canada would extend major security guarantees to the United States. In bilateral negotiations in December 1971, for instance, Flanigan raised the one key condition for the U.S. to remove all restrictions on oil imports from Canada: "There would be a statement that the volume of oil you were exporting to […] the United States […] would not be curtailed due to a cutoff of your imports."[149] Thus, in case of an Arab oil embargo against both the United States and Canada, Albertan oil would continue to flow south of the border, and Eastern Canada—and especially Quebec—would have to find an alternative arrangement. However, such a deal would spell political suicide for any Canadian politician: it was inconceivable, and even preposterous, to expect any one Canadian province to bear the costs of U.S. energy security. Thus, in Ritchie's own words, "The problems to me seem well-nigh insuperable," leaving yet another round of negotiations

148 "Memorandum for the Cabinet: An Energy Policy for Canada: A Strategic Report," April 14, 1972, Alastair Gillespie Fonds, R1526, Vol. 319, File 3, Energy Policy Study - C. An Energy Policy For Canada: A Strategic Report, 1972, Library and Archives Canada (LAC), Ottawa, ON, Canada.

149 "Telephone Conversation Between Mr. Ritchie and Peter Flanigan of the White House," December 3, 1971, A.E. Ritchie Fonds, MG31 E44, Vol. 13, File 11, Personal Correspondence (1 of 4), 1971, Library and Archives Canada (LAC), Ottawa, ON, Canada.

inconclusive.[150] Thus, by the early months of 1972, U.S. officials were left with the impression that there was "little if any desire on [the Canadian] government's part to enter into an agreement with the United States," which could only be reached "if Canada really want[ed] one."[151]

In this context, Nixon's personal antipathy towards Canadian Prime Minister Trudeau made matters even worse. In April 1972, he traveled to Ottawa to discuss their bilateral relationship, with the hopes of finally overcoming the litany of obstacles that had stood in the way of a North American energy partnership. But by then, his patience was running short. In preparation of his official state visit, Nixon bluntly exclaimed: "I don't care one damn about the Canadians. Or the fact that I want to screw this Trudeau when I'm up there."[152] And indeed, Trudeau would not budge: Canadian negotiators deemed the U.S. stance on security guarantees to be unreasonable, and they refused to place U.S. energy security above Canadians' own needs. The question of Alaskan oil also remained a stumbling block: Canadian officials repeatedly raised the dangers of West Coast tanker traffic to Nixon, advocating instead for the continental route. After all, a U.S. environmental impact statement had also confirmed its ecological advantages vis-à-vis the Trans-Alaska Pipeline, and a joint project could have presented an opening for greater U.S.-Canadian cooperation in the Arctic. However, this all fell on deaf years.[153] Indeed, on the American side, Shultz considered

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[150] "Telephone Conversation Between Mr. Ritchie and Peter Flanigan of the White House," December 3, 1971, A.E. Ritchie Fonds, MG31 E44, Vol. 13, File 11, Personal Correspondence (1 of 4), 1971, Library and Archives Canada (LAC), Ottawa, ON, Canada.

[151] N. R. Chappell, Energy Counselor, "Memorandum to File: Memcon with Akins," January 18, 1972, Department of Finance Fonds, 8815-04, Vol. 6, Canada-United States Oil & Gas Discussions, 1971-1972, Library and Archives Canada (LAC), Ottawa, ON, Canada.

[152] "Editorial Note," *FRUS*, Vol. XXXVI, Doc. 121.

[153] "Record of Canada-United States Conversations Held in the Cabinet Room (340-S) of the Centre Block of the Parliament Buildings," April 14, 1972, Pierre Elliott Trudeau Fonds, MG26 O7, Vol. 494, File 853, Pres. Nixon - Pers. & Conf., Library and Archives Canada (LAC), Ottawa, ON, Canada; "Visit to Canada of President Nixon, April 13 to 15, 1972: Canadian Pipeline Route for Alaska Oil," April 1972, Pierre Elliott Trudeau Fonds, MG26 O11, Vol 27, File 4, Secret: Canada and the U.S.A.: Economic Relations, 1971-1973, Library and Archives Canada (LAC), Ottawa, ON, Canada; "Visit to Canada of President Nixon, April 13 to 15, 1972: Oil Tanker Movements,"

that any pipeline project had to ensure U.S. security of supply in case of an Arab oil embargo, and that, given the transnational nature of the project and Canada's emphasis on national sovereignty, their neighbor could not be trusted: "The oil, so to speak, came through Canada, and if some sort of Middle Eastern oil crisis of some sort, then would they siphon that oil off and hold it hostage against American oil on the East Coast of Canada." Nixon agreed: "We don't want to do it with the Canadians," avoiding any talk on Alaskan oil during his visit.[154] Then, on May 11, 1972, he finally greenlit the construction of the Trans-Alaska pipeline, and just a month later, in a twist of fate, an U.S. tanker oil spill engulfed the shores of White Rock Beach in British Columbia. The Canadian Prime Minister responded with fury and outrage, demanding compensation from the United States for all damages as well as a thorough clean-up, after the British Columbia legislature unanimously passed a resolution opposing any U.S. tanker traffic on its waters. The Trans-Alaska pipeline thus eventually lost the fight against Canadian-supported transnational environmental activists in the courts, and despite America's desperate need for oil, Alaskan production would not take off for years to come.[155]

This state of affairs spelled doom for the Continental Oil Policy and the system of Western Hemispheric Preference. Indeed, by the summer of 1972, the North American neighbors had proven unable to draw a common energy security policy. They discovered that their interests were not complementary: they both produced oil in their Western territories, leaving their Eastern coasts

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April 1972, Pierre Elliott Trudeau Fonds, MG26 O11, Vol 27, File 4, Secret: Canada and the U.S.A.: Economic Relations, 1971-1973, Library and Archives Canada (LAC), Ottawa, ON, Canada.

[154] "Editorial Note," Doc. 121.

[155] "Telex from Vancouver, British Columbia, to Prime Minister Trudeau," June 6, 1972, Pierre Elliott Trudeau Fonds, MG 26 O7, Vol. 382, Energy Correspondence, 1968-1975, Library and Archives Canada (LAC), Ottawa, ON, Canada; Prime Minister Trudeau and WAC Bennett, Premier of British Columbia, June 13, 1972, Pierre Elliott Trudeau Fonds, MG 26 O7, Vol. 382, Energy Correspondence, 1968-1975, Library and Archives Canada (LAC), Ottawa, ON, Canada; Yergin, *The Prize*, 556.

dependent on overseas imports. Thus, if the U.S. expected Canada to come to its rescue in case of an Arab oil embargo, Canada needed the U.S. to ensure Quebec and the Maritimes' energy security—a request that, without any spare production capacity, the United States was unable to adequately fulfill. Officials could not even agree upon a common risk assessment for the global oil market: while the Canadians just wanted to prepare for a 25% cutoff of oversea oil imports for 6 months, the Americans sought a joint contingency plan that would cover a complete halt in imports for a full year—which would place the Canadian oil industry under extreme stress. Thus, by the summer of 1972, the U.S.-Canadian negotiations fell apart. While Canadians could have benefitted from unlimited access to the U.S. oil market, they were unwilling or unable to give enough security guarantees to their American counterparts. After all, with the specters of Albertan and Quebecois separatisms, the threat to Canada was existential: it could not put its national unity at risk to act as the equivalent of an oil insurance policy for the United States. Additionally, on the U.S. side, the Nixon administration also feared that the abolition of Canadian quotas and tariffs could backfire if a similar arrangement wasn't reached with Caracas. After all, the bilateral negotiations with both Canada and Venezuela were interdependent, and each turned in circles without achieving any actionable results, leaving dire prospects for Western Hemispheric Preference.[156]

IV. A Tectonic Shift towards the Gulf: The Rise of the U.S.-Saudi Special Relationship in Global Context

[156] "Memorandum From the President's Assistant for International Economic Affairs (Flanigan) to Secretary of Labor Shultz and the President's Assistant for National Security Affairs (Kissinger)," June 29, 1972, *FRUS*, Vol. XXXVI, Doc. 125; "Paper Prepared by the National Security Council Staff," undated, *FRUS*, Vol. XXXVI, Doc. 128.

By 1972, Nixon's U.S. oil policy reform was in crisis. Each in their own way, Venezuela and Canada had embraced economic nationalism that collided with the United States' interests. While Caracas was still committed to remaining America's largest source of foreign oil, its confrontation with U.S. oil corporations had derailed bilateral diplomatic talks with Washington. Meanwhile, Trudeau's Canada began to assert its economic independence from the United States, which thwarted hopes for an integrated North American oil market. And without any new output from Alaska, U.S. oil production continued to decline, leaving the Nixon administration desperate to find a solution to what it saw as a looming "energy crisis." And it was then, as talks floundered with both Caracas and Ottawa, that Riyadh came up with an unprecedented offer: if Nixon liberalized imports and allowed global—and especially Arab—oil to freely flow into the United States, Saudi Arabia could reinvest its revenues in the U.S. economy, establishing a new, mutually beneficial interdependence. The United States thus embraced a controversial and highly consequential shift in its energy policy, pivoting from the Americas to the Persian Gulf.

In 1972, dissenting opinions on Hemispheric Preference started to gain ground in Washington: for the first time, the foreign policy and defense establishments seriously began to challenge the oil policy orthodoxy that had stood in place since the Eisenhower administration. The National Security Council warned that, in fact, oil import policy was being designed "ad-hoc country-by-country" according to conflicting "parochial interests" within the U.S. government. Hence, the U.S. energy strategy's full range of foreign policy implications had not been sufficiently examined—especially in terms of Cold War geopolitics. For instance, a common oil market in the Americas could lead to the emergence of similar "regional blocs" in Europe and Asia. The Soviet Union had already taken note of the situation and offered its "secure" oil supplies to Europe and Japan—an alarming scenario. Thus, by insisting on a regional energy security framework, the U.S.

could unwittingly imperil its Cold War alliances and leave Western Europe and Japan at the USSR's mercy if there were to be another Arab embargo. In the long run, the Soviet Union could even replace the United States as the guarantor of its NATO allies' energy security. Also, if Europe bound itself to the Middle East in an Eastern Hemisphere energy bloc, this could also cut the U.S. off from the world's largest oil reserves, and European companies could even replace American multinationals as concessionaries in Arab oilfields. Internal pressure thus built for the Nixon administration to accept that petroleum's future lay in the Persian Gulf, and to revise its policies accordingly. The United States would have to take a big risk, and the easiest way to mitigate it was to adequately share it with its European and Japanese partners. And in the economic sphere, the U.S. had yet to address the monetary implications of its oil foreign policy: with growing import requirements and declining oil corporate revenues, oil was adding to the trade deficits that had been building up since 1971—for the first time since World War II. This, in turn, limited the United States' ability to project power abroad. The Nixon administration thus had to overcome these dual geostrategic and economic obstacles.[157]

Coincidentally, another wave of resource nationalism was sweeping across the Middle East. Since January 1972, OPEC members and oil companies were discussing a new critical question: government equity participation in local company subsidiaries. OPEC insisted that companies had to accept 20% as the minimum level of government participation in their activities—or otherwise, they would be nationalized. Once again, the companies tried to divide OPEC by negotiating separate agreements with individual countries, beginning direct talks with the Shah and with Saudi Minister Yamani. But while Yamani spoke for Saudi Arabia, he had also become OPEC's new

[157] "Memorandum From Robert D. Hormats, Richard T. Kennedy, and John D. Walsh of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger)," July 11, 1972, *FRUS*, Vol. XXXVI, Doc. 127; "Paper Prepared by the National Security Council Staff," Doc. 128.

Secretary General—which significantly raised the stakes of any settlement between U.S.-owned Aramco and the Saudi monarchy. As a result, Yamani's positioning remained adroitly ambiguous: the Saudi minister could swiftly alternate between his Saudi and OPEC responsibilities, and it was understood that the Saudi settlement would serve as a blueprint for the remaining Arab Gulf states.[158]

These negotiations also compelled the U.S. government to rethink its relationship with the oil corporations: they strongly opposed any Saudi move for equity participation, but it was in the interest of the U.S. to keep amiable relations with the Saudi monarchy. If Aramco and Saudi Arabia came to a showdown, it would be impossible for the U.S. government to remain neutral—which had already become clear in Libya and Venezuela. In fact, Saudi Arabia's position as a moderate "buffer" between the U.S. companies and the radical Arab oil regimes of Libya, Algeria and Iraq could be compromised if the Kingdom appeared to be a subservient pawn of the United States.[159] Thus, King Faisal himself made it clear that the ball was on the United States' court: the European and Japanese economies rolled on Saudi oil; Saudi Arabia had historically been a cooperative ally of the US; and it had remained loyal despite America's regionally unpopular support for Israel. Hence, Saudi Arabia's demand for at least a 20% participation in Aramco was both natural and rational, and the United States was left with a simple choice: either estranging itself with the Saudis or pressuring the companies to accept the Kingdom's demands. From the U.S. Embassy in Jedda's perspective, this signaled that the highest echelons of Saudi power had also fallen prey to a global anti-imperialist ideology "which impel[led] all developing nations to seek control of their vital

[158] "Telegram From the Department of State to the Embassies in Saudi Arabia, Kuwait, and Iran," January 29, 1972, *FRUS*, Vol. XXXVI, Doc. 108; "Information Memorandum From the Acting Assistant Secretary of State for Economic Affairs (Katz) to the Under Secretary of State (Irwin)," February 9, 1972, *FRUS*, Vol. XXXVI, Doc. 111.

[159] "Telegram From the Embassy in Saudi Arabia to the Department of State," February 17, 1972, *FRUS*, Vol. XXXVI, Doc. 112.

national resources." Any show of American support for the companies would seriously damage the United States' standing not just in the Arab world, but across the Third World.[160]

Although Aramco eventually accepted a Saudi participation of 20%, this did not defuse pressures for the U.S. government to get more involved in these negotiations. In July 1972, talks between Aramco and Saudi Arabia reached a new turning point that prompted King Faisal to pen a letter to Nixon requesting his support against the company's renewed intransigence. The new stumbling block was the level of compensation to be paid by Saudi Arabia for its shares of Aramco. At the surface, the disagreement revolved around the technicalities of oil company financial valuation: Saudi Arabia wanted to pay Aramco according to its assets' net book value, while Aramco wanted compensation for the equivalent of its future cash flows. However, the political implications of this financial deal were deeper and broader.[161] Since 1967, King Faisal had shaken Saudi Arabia out of its historic isolation by championing the cause of "Islamic Solidarity." He had not only played a crucial role in convincing Nasser's successor Anwar Sadat to expel Soviet military advisors from Egypt—a major Cold War victory for the United States—but he had also revitalized and become an effective leader of both the Arab League and the Organization of Arab Petroleum Exporting Countries (OAPEC). Thus, America's amiable relationship with King Faisal lay at the heart of long-term U.S. interests in the Middle East.[162]

[160] "Memorandum of Conversation: USG Views on SAG Aramco Oil Negotiations," February 21, 1972, *FRUS*, Vol. XXXVI, Doc. 114.

[161] "Telegram From the Department of State to the Embassies in All OECD Capitals," March 11, 1972, *FRUS*, Vol. XXXVI, Doc. 117; "Paper Prepared by Harold H. Saunders and Robert D. Hormats of the National Security Council Staff," July 19, 1972, *FRUS*, Vol. XXXVI, Doc. 129; "Memorandum of Conversations: United States and Saudi Arabian Views on Oil and Energy Policy and on the Current OPEC Negotiations," July 26–31, 1972, *FRUS*, Vol. XXXVI, Doc. 134.

[162] "Memorandum From James H. Critchfield, Special Assistant to the Deputy Director of Plans, Central Intelligence Agency, to Director of Central Intelligence Helms," July 24, 1972, *FRUS*, Vol. XXXVI, Doc. 131.

However, the American oil corporations did not seem to share these conceptions of long-term national interest: their senior management had decided to resist the wave of Third World resource nationalism by confronting Faisal and Yamani. Thus, fearing that some U.S. officials were advocating for neutrality in the Aramco negotiations, the Saudi monarch preempted any U.S. decision on the matter by sending his son, Prince Saud, to secretly discuss Saudi Arabian oil policy in Washington. In an ad-hoc series of meetings with Kissinger and eleven other senior U.S. officials,[163] Prince Saud claimed that U.S. government intervention was necessary for Aramco and Saudi Arabia to reach a satisfactory settlement. In the process, he also made the case for a new U.S.-Saudi special relationship. As Saudi Arabia's resources were coveted by all its neighbors, the monarchy needed protection, which the United States was best suited to provide. Besides, he argued that it was no longer acceptable for oil companies to control Saudi Arabia's destiny, but Aramco's intransigence was leaving the Saudi government with little choice beyond its unilateral nationalization. Finally, the U.S. had to revise its security assessment of Saudi Arabia: far from being unreliable, it had an extraordinary record of supplying oil to the West in times of need. Thus, Prince Saud made the case for an overhaul of U.S. energy security strategy, laying the groundwork for the abandonment of a decades-long hemispheric framework for oil trade, which would be superseded by a new U.S.-Saudi energy partnership.[164]

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[163] Including Mr. James Schlesinger, Chairman, Atomic Energy Commission; Peter Flanigan, Assistant to the President; Hollis Dole, Assistant Secretary of Interior for Mineral Resources; John Nassikas, Chairman of the Federal Power Commission; John Irwin, Deputy Secretary of State; George Lincoln, Director, Office of Emergency Preparedness; John Connally, Former Secretary of the Treasury; and James Akins, Director, Office of Fuels and Energy, Department of State.

[164] "Memorandum From Harold H. Saunders of the National Security Council Staff to the President's Deputy Assistant for National Security Affairs (Haig)," July 26, 1972, *FRUS*, Vol. XXXVI, Doc. 132; "Memorandum of Conversations: United States and Saudi Arabian Views on Oil and Energy Policy and on the Current OPEC Negotiations."

Most strikingly, Prince Saud made an enticing suggestion: after acquiring its share of Aramco, Saudi Arabia was set to receive billions of dollars in a very short time—which its economy was not ready to absorb. Thus, the Kingdom was looking forward to investing this revenue abroad and was "willing to entertain any suggestions or offers from foreigners." The American counterparts quickly encouraged Prince Saud to consider investing in the United States, which would offer Saudis a whole new world of possibilities:

> The United States was most pleased with Saudi Arabia's intention to invest downstream. Saudi Arabia could buy stocks on the New York exchanges; it could, with its enormous capital, buy out individual companies or buy controlling interest in them. It could start new factories from scratch; it could invest in hotels or land; in short the possibilities for investment in the United States are almost unlimited.[165]

Thus, as the Nixon administration pondered the endless, mutually advantageous possibilities of a new Saudi-American partnership, it also began to suspect that the corporations had been acting deceitfully, claiming that the Saudis were inflexible when, in fact, their proposals were far more generous than Aramco had reported. Thus, Kissinger opted to take the lead in the oil negotiations: while he had previously considered it inadequate for the U.S. government to engage in commercial talks on behalf of the oil companies—as had been the case in Venezuela—he realized that the American oil companies were already negotiating U.S. foreign policy on his behalf. He thus had to stop oil executives from preventing the world's largest oil consuming country and largest oil exporting state from reaching a new mutually beneficial partnership.[166]

Kissinger's assistants proceeded to make their own valuation of Aramco—not according to any sound rules of accounting or sophisticated financial models but based upon purely political

[165] "Memorandum of Conversations: United States and Saudi Arabian Views on Oil and Energy Policy and on the Current OPEC Negotiations."

[166] "Transcript of a Telephone Conversation Between the President's Assistant for National Security Affairs (Kissinger) and John B. Connally," August 2, 1972, *FRUS*, Vol. XXXVI, Doc. 135.

considerations. Given that the Shah had reached his own separate agreement with Iran's Oil Consortium, they proposed an amount that would be high enough not to arouse the Shah's jealousy, and low enough to appeal to Kuwait and the other Gulf States: 700 million dollars. "As you see," they claimed, "this is an inexact science!"[167] However, Standard Oil of New Jersey Chairman Kenneth Jamieson condemned the State Department's interference: it was his "business to negotiate it," so he would send his own emissary to Saudi Arabia. The U.S. government had to stay away from these private business matters. Thus, fearing that oil executives' short-sightedness would draw a wedge between the U.S. and Saudi Arabia, Kissinger blasted them: "the hell with them," "the stupid bastards!"[168] The Nixon administration refused to be outmaneuvered by the companies, and after Nixon praised King Faisal as an eminent embodiment of "the world forces of moderation and evolutionary progress," bilateral talks resumed in September between Yamani and U.S. government officials, setting the framework for a new Saudi-American energy partnership.[169]

However, as these negotiations were being undertaken, Venezuela finally made an offer for a new preferential oil relationship with the United States. It would grant investment opportunities and financial guarantees for the U.S. to explore and exploit the heavy oils of the Orinoco Tar Belt—which could be large enough to meet the rise in American oil demand. However, this proposal had a series of limitations: the Tar Belt was very difficult to develop, requiring significant U.S. capital investments. Moreover, these heavy oils were costly to refine, which would

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[167] "Memorandum From Harold H. Saunders of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger)," August 3, 1972, *FRUS*, Vol. XXXVI, Doc. 136.

[168] "Transcript of a Telephone Conversation Between the President's Assistant for National Security Affairs (Kissinger) and John B. Connally," August 5, 1972, *FRUS*, Vol. XXXVI, Doc. 137.

[169] "Letter From President Nixon to King Faisal of Saudi Arabia," August 11, 1972, *FRUS*, Vol. XXXVI, Doc. 138; "Memorandum of Conversation: Saudi Investments in the United States; Saudi Proposal of a Special US-Saudi Oil Relationship; OPEC Negotiation," September 30, 1972, *FRUS*, Vol. XXXVI, Doc. 140.

raise prices for U.S. consumers. The U.S. would also have to address Venezuela's social grievances and nationalist sentiments through other acts of American goodwill, such as creating new economic development programs. Thus, the agreement presented high costs without addressing the U.S.'s balance-of-payments concerns: more U.S. dollars would leave the U.S. economy to cover expensive investments and generous development programs, in return for pricey oil imports that would add inflationary pressures to the U.S. economy. And yet, rejecting this proposal could unleash another set of problems. A prescient CIA report indicated that, in the absence of any favorable deal with the United States, a Venezuelan nationalist backlash could erupt into a showdown between the country's "moderate and radical forces." While the country's business sector and the two main centrist parties acted as moderating forces to contain the rise of anti-establishment factions, oil remained a contentious issue which could be exploited by radical or opportunistic politicians. Absent an adequate oil arrangement with the United States and its companies, Venezuela could eventually experience an internal political meltdown, a wave of anti-American nationalist incidents, or an electoral victory for the far left, any of which could produce a "major crisis in US-Venezuelan relations."[170]

Surprisingly, Yamani claimed to be aware of America's talks with both Venezuela and Canada, and in September 1972, he professed that he would make a proposal that no Hemispheric partner could match. In simple terms, unrestricted sales of Saudi oil to the United States would be translated into unlimited Saudi investments into the U.S. economy. The mutual compatibility between Saudi Arabia and the United States was evident: the U.S. would need unprecedented amounts of foreign oil in the following decade, and no country matched Saudi Arabia's reserves;

[170] "National Intelligence Estimate: Venezuela: The Politics of Oil," October 18, 1972, *FRUS*, Vol. XXXVI, Doc. 143.

on the flipside, by investing billions of dollars back into the American economy, Saudi Arabia could "more than offset" U.S. payments for its oil. This would set the basis for a "new interdependence" between both countries. Raising the stakes of his offer, Yamani contended that many other countries—including West Germany and Japan—vied for such special relationship with Saudi Arabia, but the Kingdom had chosen the United States as its preferred partner. He also made it clear that Saudi Arabia's investment potential into the U.S. was unique, as more populous countries such as Iran would not have any comparable amount of oil-derived free capital. He then went on to disparage Venezuela's offer and its impact on the American economy: the United States would invest billions in Venezuela to buy expensive oil. In contrast, Saudi Arabia would invest billions in the United States after selling it cheap oil—which would ease U.S. balance-of-payments and inflationary pressures. The Saudi offer was, indeed, unbeatable.[171]

On both ends, concerns remained regarding such a deal's visibility: there would be strong domestic and regional resistance against such a U.S.-Saudi economic partnership. Moreover, if Arab oil was inherently insecure, then the U.S. would have to commit itself to making it secure, effectively tying its economy to the Saudi monarchy's fate. Nonetheless, by October 1972, the tone of US exchanges with its Hemispheric partners had changed dramatically. In its energy security talks with Canada, the U.S. changed its planning scenario to a "one-year cut-off resulting from the invasion of Saudi Arabia by its neighbors." The fear of an Arab oil embargo had become secondary to the loss of Saudi stability. In a very lucid statement, the U.S. negotiator told its Canadian counterpart that, if Saudi oil production were secure, the U.S. would "no longer be worrying about talks with Canada and Venezuela." Indeed, the Saudi proposal had dramatically

[171] "Memorandum of Conversation: Saudi Investments in the United States; Saudi Proposal of a Special US-Saudi Oil Relationship; OPEC Negotiation."

altered U.S. conceptions of its energy security—and inter-American energy relations. Saudi Arabia was rising to replace Venezuela and Canada as the United States' leading oil partner, signaling a hemispheric shift in American energy foreign policy, and the country's consequential and enduring turn towards the Persian Gulf.[172]

And even then, Yamani's offer was not readily embraced. The State Department considered his offer to be extremely attractive, and was inclined to accept more Saudi oil and investments in the U.S. This approach also went in line with the rapid ongoing changes in global oil markets: with U.S. diplomatic support, both Saudi Arabia and Abu Dhabi successfully signed very favorable participation agreements with the corporations in December 1972, and Persian Gulf states were gaining increasing control over global oil markets.[173] However, U.S. diplomats fret about the precedent that a close U.S.-Saudi bilateral partnership could set for other oil-importing countries. For instance, other industrialized countries' competition for preferential relationships with OPEC states could play to oil-exporters' advantage and put upward pressure on prices. Moreover, when word of Yamani's offer reached European officials' ears in Brussels, it "obviously disturbed them considerably," arousing fears the U.S. wanted to keep Saudi oil supplies and financial investments all for itself. The United States thus had to strike a proper balance between its potential opening to the Gulf and maintaining cooperative relations with other oil-importing countries in Western Europe and Japan.[174] And in the Gulf, the U.S. also had to thread carefully between Iran and Saudi Arabia—the "Twin Pillars" of Nixon's Middle Eastern strategy: too close a partnership with one could alienate the other. Instead, the United States had to focus

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[172] "Editorial Note," *FRUS*, Vol. XXXVI, Doc. 142.

[173] "Paper Prepared by William B. Quandt and Harold H. Saunders of the National Security Council Staff," December 26, 1972, *FRUS*, Vol. XXXVI, Doc. 147.

[174] "Telegram From the Deputy Secretary of State (Irwin) to the Department of State," October 25, 1972, *FRUS*, Vol. XXXVI, Doc. 144.

on fostering Saudi-Iranian cooperation to ensure Western energy security and swing global markets in its favor.[175]

Hence, at the time of his reelection, Nixon had become increasingly pessimistic about his ability to stop what seemed inevitable: the United States would face an energy crisis within the next 10 years, and despite all his efforts to the contrary, Middle Eastern oil supplies would become "absolutely indispensable" to his country. Nixon continued to perceive this region as inherently unstable, and he felt that the historical precedent vindicated his misgivings. In a private letter to his CIA Director, the President pondered worst case scenarios of how massively importing Persian Gulf oil could doom America: What if another Mosaddegh arose in Iran or Saudi Arabia, or the Shah was overthrown? Would America's economic future really have to depend on King Faisal and Mohammad Reza Shah staying in power? Or even worse, on the other "new and highly unstable Gulf states?" Nixon asked for a thorough review of all these regimes, asking what the U.S. could do "to shore them up."[176]

And he was not alone in harboring such misgivings: King Faisal also had qualms about a dramatic expansion of Saudi Arabia's economic relations with the United States without any accompanying progress towards an Arab-Israeli settlement—which he saw as the main source of regional instability. He was grateful for U.S. diplomatic support in the negotiations with the oil corporations, and both countries certainly shared interests in the Middle East: from drawing Anwar Sadat's Egypt out of the Soviet orbit to containing communism in South Yemen, the United States and Saudi Arabia certainly had ample room for cooperation. But none of these Cold War

[175] "Notes of Meeting: Oil Briefing," undated, *FRUS*, Vol. XXXVI, Doc. 160; "Memorandum From the Ambassador-Designate to Iran (Helms) to President Nixon," February 22, 1973, *FRUS*, Vol. XXXVI, Doc. 166.

[176] "Letter From President Nixon to Director of Central Intelligence Helms," December 29, 1972, *FRUS*, Vol. XXXVI, Doc. 149.

geostrategic calculations could overshadow the political salience of the Arab-Israeli problem, and especially the Jewish state's latest seizure and occupation of Arab lands. He urged Nixon to give his "highest consideration" to this conflict: he had to pressure Israel to withdraw from the territories it conquered in 1967, and even withhold military assistance if it refused to stop its occupations. But to his frustration, Nixon opposed any linkage between expanding U.S.-Saudi economic cooperation and resolving of the Arab-Israeli conflict.[177]

By March 1973, the U.S. government had become increasingly cognizant of the way in which global energy markets were shifting in Saudi Arabia's favor—with major implications for international finance. The combination of a relentless growth in global oil demand, rising oil prices and OPEC states' increased participation in the oil production business was set to generate unprecedented revenues for Gulf countries. However, unlike Iran, Saudi Arabia lacked the population, domestic market, and manufacturing base to absorb these revenues: according to the CIA, it would have to accumulate a "truly astronomical" amount of foreign financial assets, which could eventually be translated into "unprecedented financial power," with "enormous potential for disruption of financial markets."[178]

These financial considerations added further incentives for the White House to accept the Saudi offer, which Kissinger discussed again with Yamani and Prince Saud in Washington on April 17, 1973. Yamani claimed that, as a "friend," Saudi Arabia had the "moral obligation" to meet the Free World's energy requirements: it was willing to increase production to meet America's growing need for imports and was ready to discuss his proposal to alleviate the drain

[177] "Memorandum From the President's Assistant for National Security Affairs (Kissinger) to President Nixon," January 26, 1972, *FRUS*, Vol. XXXVI, Doc. 154.

[178] "Paper Prepared in the Office of Economic Research, Central Intelligence Agency," March 30, 1973, *FRUS*, Vol. XXXVI, Doc. 175.

on U.S. balance of payments by investing Saudi revenues in the U.S. economy. However, the Arab-Israeli conflict remained an insurmountable obstacle: Saudi Arabia was "embarrassed" and "lonely," under "heavy pressure from the rest of the Arab world" to refrain from engaging in any special relationship with Israel's apparently unconditional ally. Prince Saud continued chastising Kissinger, claiming that "the continued flow of aid and arms to Israel [gave] the impression of an unbreakable bond between the US and Israel," and that "other Arabs—even Europeans talking to Saudi Arabians—asked why Saudi Arabia should only talk with the US and only invest its oil revenues in the US." In fact, even after Anwar Sadat expelled Soviet advisors from Egypt, and signaled his willingness to sign a peace deal with the Jewish state, Israel's position had only hardened. Yamani and Prince Saud were skeptical of Kissinger's claims that he was powerless in bringing about a settlement, and that he had little control over the actors on the ground. They thus issued a serious warning: the long-term viability of any new U.S.-Saudi oil and financial relationship would rest upon satisfactory progress in the Arab-Israeli conflict. Yamani challenged Kissinger: he would return to Washington in September 1973 and would expect to see some progress on Israel by then. Otherwise, Saudi Arabia might reconsider all its plans. With Kissinger's assurances that he would certainly make a "major effort" by that implicit deadline, Yamani and Prince Saud departed Washington. The U.S. was thus ready for a radical oil policy shift.[179]

On the following day, on April 18, 1973, without any pomp or circumstance, Nixon finally abolished the Mandatory Oil Import Program. In a wide-ranging special message to Congress on U.S. energy policy, Nixon mentioned that, given the slow progress on Alaskan oil, the United States had to avert a short-term petroleum shortage, so "it will be necessary for us to increase fuel imports." While he still trusted that an increase in domestic oil production—along with the

[179] "Memorandum of Conversation," April 17, 1973, *FRUS*, Vol. XXXVI, Doc. 176.

development of nuclear power and the establishment of energy conservation policies—would succeed in curbing import reliance in the long run, the time had come for America to abandon MOIP, which was "of virtually no benefit any longer." Instead of protectionism and regulatory red tape, the country needed import flexibility. He fully liberalized U.S. oil imports, eliminating all existing tariffs and quotas to allow foreign crude and refined oil to freely flow into the U.S. market—assuring the public that, despite all previous claims to the contrary, this would "contribute to our national security." Thus, with no mention of Saudi Arabia or the Middle East, he tacitly carried out his part of the bargain with Yamani and Prince Saud: the U.S. was now open to Persian Gulf oil, and Saudi oil could expand its market share. The deal proceeded tacitly, with both parties avoiding any Jewish or Arab backlash against their discrete rapprochement.[180]

Conclusion:

In the first half of 1973, the Nixon administration was polishing the specific details of an emerging U.S.-Saudi special relationship that involved oil trade, geostrategic coordination, and financial investments. With inconclusive negotiations with Venezuela, and the breakdown of energy talks with Canada, the United States had been forced to abandon a decades-old orthodoxy of hemispheric energy security. Instead, it found in Saudi Arabia an oil-rich ally that, although not inherently secure, the U.S. could *make secure*. In exchange, America expected to receive billions of dollars in Saudi financial investments that would alleviate payments imbalances. Thus, this two-way flow of oil and dollars was set to create a new interdependence between both economies. Nonetheless, as King Faisal, Prince Saud, and Yamani's had repeatedly warned, this budding partnership was built upon a house of cards: it rested on satisfactory U.S. progress in resolving the

[180] "Editorial Note," *FRUS*, Vol. XXXVI, Doc. 177, 177.

Arab-Israeli conflict. Saudi leaders expected their generous offer to be a step in the direction of a more balanced U.S. relationship with Israel and the Arab world. This would be seriously tested just six months later in October 1973, with Egypt and Syria's surprise assault on Israel during the Jewish festivities of Yom Kippur and the Muslim holy month of Ramadan. U.S.-Saudi relations would then approach the point of irreversible rupture, before paradoxically reemerging from the Energy Crisis as an enduring and highly consequential special relationship.

But America's turn towards the Persian Gulf war far from preordained, and it ran contrary to all of Nixon's initial intentions. Far from a full import liberalization, his goal in reforming MOIP was to prevent any U.S. long-term dependency on Arab oil, which even in early 1973, he still perceived to be inherently—even quintessentially—insecure. The Saudi option only rose to prominence because the traditional framework of hemispheric energy security broke down, and Saudi Arabia deliberately positioned itself as a much-improved substitute for Venezuela. And in this sense, a mix of circumstances came together to enable America's radical energy shift from the Americas to the Gulf. To be sure, U.S. multinational oil corporations had preempted the U.S. government in redefining notions of security: they had shifted investments from Venezuela to the Middle East since the 1960s, preferring Saudi Arabia's autocratic stability to a democratized Venezuela's political unpredictability. Furthermore, the Libyan Revolution ushered in a new era of oil radicalism within OPEC, drawing Venezuela into a wave of resource nationalism that exacerbated its conflicts with the companies and placed it at odds with Washington. And, perhaps unexpectedly, Canada chose this moment to assert its economic sovereignty and independence from the United States, dealing a final death blow to Nixon's hemispheric plans. Each in their own way, Venezuela and Canada rebelled against the emerging forces of globalization and the loss of economic sovereignty that came with the world's growing commercial integration. Ironically, however, Nixon's decision to abolish all tariffs and quotas for U.S. oil imports ultimately unleashed a globalization of oil flows—creating new forms of economic integration between the United States and the Persian Gulf. Against all odds, the road from Washington to Riyadh went through Caracas, Tripoli, and Ottawa.

Chapter II:
The Arab Oil Weapon: The Embargo, the Breakdown of Western Cooperation, and the Surge of Afro-Arab Solidarity, 1973-1974

When Nixon abolished U.S. oil import controls and allowed the world's oil to freely flow into the United States, he inadvertently made the United States vulnerable to an Arab oil embargo. While Arab countries had discussed using oil as an economic weapon against the U.S. both during the 1957 Suez Crisis and the 1967 Six-Day War, U.S. restrictions on Arab oil imports had consistently made this threat ineffective. This all changed, however, with the end of the Mandatory Oil Import Program in April 1973. And yet, until October, the Nixon administration remained oblivious to its new vulnerability: Kissinger chose to discount repeated warnings from Saudi officials—including King Faisal himself—as well as from oil executives, about the likelihood of an Arab oil embargo. Indeed, after years resisting Saudi overtures for unrestricted oil trade, U.S. officials embraced Saudi Arabia as the nation's new energy partner—ignoring the inherent contradiction between a U.S.-Saudi special relationship and an unconditional U.S.-Israeli strategic alliance. The Arab-Israeli War on Yom Kippur in October 1973 thus caught the Nixon administration unprepared. Without any contingency plan and unwilling to give up on Israel, Nixon and Kissinger chose to stand by the Jewish state. With Saudi Arabia at its helm, the Arab world retaliated with an oil embargo against the United States, opening the way to the First Oil Shock.

In 1973, America's unrestricted entry into the global oil market had already brought up fears of a looming energy crisis—eliciting an ominous response from U.S. allies. Instead of collaborating with the United States to manage increasingly tight oil supplies, the European Community and Japan saw the U.S. as a rival in their quest for Middle Eastern oil. Months before the October War, they heeded Arab warnings and chose to distance themselves from Israel's most loyal supporter to avert any potential Arab oil sanctions. Meanwhile, the Nixon administration dismissed the urgency of any energy coordination with Europe and Japan. When the supply shock rocked the world, however, it was too late to cooperate. Instead, Arab petrostates effectively deployed their oil weapon—which mixed regular cutbacks in oil production with targeted embargos—to sow divisions within the West and build new solidarities across the Global South. In a bid to evade the embargo or see their supplies restored, close U.S. allies like Britain, Canada, France, and Japan turned their backs on the United States. And even within the Common Market, European countries ostracized an embargoed Netherlands—opting to keep oil taps flowing rather than standing up for European unity. Beyond the West, however, the Arab oil weapon became an engine of anticolonial solidarities: in partnership with the Organization of African Unity, Arab countries deployed the oil weapon against the colonialist and racist regimes of Portuguese Africa, Rhodesia, and South Africa. They thus built an Afro-Arab alliance that stood in stark contrast with the industrialized West's internal quarrels.

The historiography of the Energy Crisis has traditionally dismissed the effectiveness of the Arab oil embargo—often portraying it as a paper tiger next to the more monumental economic shock that came with OPEC's fourfold price hike.[1] And indeed, the West found tools to remediate

[1] In *The Prize* (2009), Daniel Yergin emphasizes oil corporations' ability to shift non-Arab oil supplies to equalize the impact of the embargo and prevent any single economy from collapsing under its weight—a vision with which Giuliano Garavini concurs in *The Rise and Fall of OPEC in the Twentieth Century* (2019). Critical works such as Timothy Mitchell's *Carbon Democracy* (2011) and Robert Vitalis's *Oilcraft* (2020) tend to depict the oil crisis as a constructed event through the collusion of corporate and OPEC interests, which, for Vitalis, produced myths about oil scarcity. This, however, dismisses the real supply and demand imbalanced affecting oil markets in 1973—even before the Arab production cutbacks. This contrasts with Daniel Sargent's vision of the oil shock as a moment of diplomatic crisis for the United States in *A Superpower Transformed* (2015)—although this work does not delve into the diplomatic ramifications of the oil embargo within the European Community, in North America, or in Southern Africa. In *Oil Revolution* (2017), Chris Dietrich does emphasize the transnational South-South solidarities that manifested during the Oil Crisis, but he mainly focuses on ideologies of resource sovereignty—overlooking the geostrategic considerations of the embargo on Southern Africa. See Daniel Yergin, *The Prize: The Epic Quest for Oil, Money, & Power* (New York: Free Press, 2009); Timothy Mitchell, *Carbon Democracy: Political Power in the Age of Oil* (London ; New York: Verso, 2011); Daniel J. Sargent, *A Superpower Transformed: The Remaking of American Foreign Relations in the 1970s* (Oxford: Oxford University Press, 2015); Christopher R. W. Dietrich, *Oil Revolution: Anticolonial Elites, Sovereign Rights, and the Economic Culture of Decolonization*, Global and

any catastrophic oil scarcity—through both conservation measures and oil companies' redistribution of non-Arab oil towards embargoed countries. If the Arab world reduced, at most, 25% of its oil production, this only entailed a 5% decrease in global oil production—which certainly produced economic disturbances and day-to-day disruptions across the world but did not lead in any way to the West's economic ruin.[2] But one should not overlook the geopolitical and diplomatic impact of the Arab world's economic sanctions against the West: beyond the narrow confines of economic metrics, the Arab oil weapon struck at the very core of the contradictions within both the United States alliance system, and the project of European construction. It also triggered another side of the "Oil Revolution" that has eluded historiographical attention: the deployment of the Arab oil weapon against the forces of colonialism and racial discrimination in Southern Africa. In this respect, the Arab oil weapon showed a remarkable success.

I. A Self-Fulfilling Prophecy: U.S.-Saudi Relations and the Path to Yom Kippur

On April 18, 1974, right as Nixon announced the end of U.S. oil import restrictions, cracks began to show on what initially seemed like a promising, mutually beneficial energy partnership between the United States and Saudi Arabia. On that same day, in an interview with the *Washington Post*, Saudi Oil Minister Yamani made clear to the American public what he had privately told Kissinger: any long-term increase in the kingdom's oil production would require a change in U.S. policy towards Israel. While Saudi interest lay in cutting back production to limit the growth of its increasingly unmanageable financial reserves, the U.S. expected Saudi Arabia to

International History (Cambridge, United Kingdom ; New York, NY, USA: Cambridge University Press, 2017); Giuliano Garavini, *The Rise and Fall of OPEC in the Twentieth Century*, First edition. (Oxford: University Press, 2019); Robert Vitalis, *Oilcraft: The Myths of Scarcity and Security That Haunt U.S. Energy Policy* (Stanford, California: Stanford University Press, 2020).

[2] Garavini, *The Rise and Fall of OPEC in the Twentieth Century*, 219.

increase production from 7 to 20 million barrels per day by 1980. But this commitment to ensuring U.S. energy security was not just causing monetary problems to the Saudi government: it was also bringing it under heavy pressure from regional actors that questioned how Saudi Arabia could simultaneously be committed to the Arab cause and to the United States—Israel's most loyal supporter.[3] These criticisms implied a credible threat to the Saudi monarchy not only from revolutionary Arab states like Libya and Iraq, but also from Palestinian militant groups such as Yasser Arafat's Palestinian Liberation Organization (PLO). Palestinian radical breakaway faction Black September—with global notoriety for kidnapping and killing members of the Israeli athletic team during the 1972 Munich Olympics—was even more ardent in its threats against the Saudi monarchy. For instance, on March 1, 1973, Black September militants broke into a party hosted by the Saudi Embassy in Khartoum, held Saudi, American, Belgian and Jordanian diplomats hostage, and killed the U.S. Ambassador and his *Chargé d'Affaires*.[4] Then, after Israel launched a military raid into Lebanon on April 9 and 10 to assassinate three high-ranking PLO leaders connected to the Munich Massacre, Arafat vowed "big revenge," and Tapline's Aramco-owned fuel storage tanks near the port of Sidon came under assault. While no group took responsibility, suspicions quickly fell upon Palestinian insurgents in Southern Lebanon.[5] Amid this tension, Yamani pleaded for the U.S. to act as a moderating force in the region: by curbing Israeli expansionist ambitions and addressing legitimate Arab grievances, it could create the "right

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[3] David B. Ottaway and Ronald Koven, "Saudis Tie Oil to U.S. Policy on Israel," *The Washington Post*, April 19, 1973.

[4] Henry Tanner, "Arab Confesses, Khartoum Says: Sudanese Declare Guerrilla Has Asserted Raid Was Managed From Beirut," *New York Times*, March 11, 1973; "Guerrillas Defend Killings at Khartoum: Condemned by Jordan," *New York Times*, March 4, 1973; Henry Tanner, "2 Believed Spared: Jordanian and Saudi Arabian Diplomats Reportedly Alive Shots Were Heard The Raiders' Decision Arab Gunmen Kill U.S. Envoys in Sudan," *New York Times*, March 3, 1973.

[5] "Sabotage Effort in Lebanon Fails," *The New York Times*, April 17, 1973.

political atmosphere" for a strong U.S.-Saudi partnership. Yamani thus warned the American public that this budding relationship came with strings attached: "We'll go out of our way to help you. We expect you to reciprocate."[6]

Thus, within a week of MOIP's abolition, King Faisal wrote a letter to President Nixon urging him to address these salient contradictions in U.S. foreign policy. With the end of oil import controls, the U.S. and Saudi Arabia were set to dramatically expand their economic relations. However, the United States' unconditional support for Israel was extremely unpopular in the Arab world, isolating Saudi Arabia and making it increasingly difficult for the kingdom to live up to its promise of ensuring U.S. energy security. Faisal reassured Nixon that Saudi Arabia remained dedicated to producing as much oil as it could, as quickly as possible, to meet American needs: "There is no change in that policy, and there never will be. It is permanent and unchanging, just as is our friendship with the United States."[7] However, Nixon's recent refusal to condemn Israel's violation of Lebanese territorial sovereignty and its targeted assassination of Palestinian leaders had come at the worst possible time. With his pro-U.S. posture coming under fire, Faisal needed "ammunition with which to defend our friendship with America in these dangerous times." To be sure, he was not asking for any radical move against Israel. In what otherwise would have been an unpronounceable confession—which could have earned him scorn and ire in Arab public opinion—Faisal avowed: "I would never expect the United States to modify its commitments to Israel; I would never expect you to discontinue your provision of armament and war materials to Israel, or your political and diplomatic support."[8] He only asked for Nixon to criticize Israeli crimes as much as he condemned those committed by Palestinians. The case of the Israeli raid on

[6] Ottaway and Koven, "Saudis Tie Oil to U.S. Policy on Israel."

[7] "Message From King Faisal of Saudi Arabia to President Nixon," April 24, 1973, *FRUS*, Vol. XXXVI, Doc. 181.

[8] "Message From King Faisal of Saudi Arabia to President Nixon," April 24, 1973, *FRUS*, Vol. XXXVI, Doc. 181.

Lebanon could have been a perfect testing ground to signal a more nuanced and balanced approach towards the region: after all, Israel had violated the territorial sovereignty of a U.S. ally, so Nixon only had to denounce a clear breach of international law. But Faisal would remain disappointed.[9]

These Saudi warnings led the U.S. national security establishment to debate whether Faisal and Yamani would really follow through on their threats—and jeopardize the close energy relationship with the United States that they had sought for years. For instance, the National Security Council feared that, despite the king's assurances to the contrary, if the Saudi leadership became really isolated in the region, it might not be able to "hold off the tide of opinion that was now running so heavily against the United States." Moreover, America's entry into what already was a very tight global oil market had aroused further talk of an ongoing "energy crisis," and Arab regimes knew that the playing field had shifted in their favor: by abolishing MOIP, the U.S. had made itself more vulnerable than ever before to an Arab oil cutoff. The NSC thus received messages from corporate and intelligence channels that Saudi Arabia was actually likely to use the oil weapon against the U.S.: Faisal had begged Aramco's president to mobilize oil corporations to lobby for a more balanced U.S. policy towards the region, and the chief of Saudi intelligence had also signaled that the Kingdom would not be able to stand on the sidelines if military conflict resumed between Egypt and Israel—an event that he feared was growing likelier by the day.[10] But the CIA stubbornly refused to heed these signs: in May 1973, it could only foresee small interruptions in oil supplies from leftist regimes such as Libya and Iraq, considering that "a major and sustained embargo on oil shipments by the Arab states working in concert [was] highly unlikely." The CIA considered the Arab world's internal divides to be unsurmountable, and it

9 "Message From King Faisal of Saudi Arabia to President Nixon," April 24, 1973, *FRUS*, Vol. XXXVI, Doc. 181.

10 "Paper Prepared by Harold H. Saunders and William B. Quandt of the National Security Council Staff," May 9, 1973, *FRUS*, Vol. XXXVI, Doc. 183.

could not conceive of pro-American regimes withstanding the detrimental consequences of an oil cutoff to the West—including the damage to their own economies, the loss of their markets, and the geopolitical and diplomatic fallout that would ensue. Thus, for the CIA, "Saudi participation, vital to an effective embargo, would be virtually out of the question in this set of circumstances certainly while Faisal is actively in charge."[11] Thus, U.S. intelligence assessments did not take the Saudi government's warnings seriously.

Nixon's sudden abolition of MOIP also brought up new tensions with Western Europe and Japan. If European countries had already expressed displeasure at what they saw as an American effort to get exclusive access to Saudi oil and investments, diplomats in Brussels criticized Nixon's oil policy shift as a "purely national response" to the country's worsening energy supply problem. Without any forewarning or consultation, the U.S. had unilaterally introduced its massive oil demand into the world market and positioned itself as a direct competitor of Europe and Japan—both of which already depended on the Middle East for 80 to 90% of their domestic oil consumption. This brought even more upward pressure on global oil prices, which could prompt European countries and Japan to retaliate by seeking to outbid the U.S. in their quest for increasingly scarce oil supplies. U.S. officials also feared that the European Common Market could also come together to compete as a single energy bloc. And in all these scenarios, any sign of Western disunity could enable oil producers to play the U.S. and its allies against each other.[12]

Thus, the Nixon administration understood that it would be in its best interest to coordinate the capitalist world's energy policies, preferably at the OECD level. It could even create a counter-

[11] "National Intelligence Analytical Memorandum 3–73," May 11, 1973, *FRUS*, Vol. XXXVI, Doc. 185.

[12] "Action Memorandum From the Assistant Secretary of State for Economic and Business Affairs (Armstrong) to the Under Secretary of State for Economic Affairs (Casey)," April 20, 1973, *FRUS*, Vol. XXXVI, Doc. 179; "Conversation Between President Nixon and Members of the Cabinet," April 20, 1973, *FRUS*, Vol. XXXVI, Doc. 180.

cartel of oil-importing countries to curb OPEC's drive to control global oil markets. However, this would be a challenging endeavor because OECD partners' interests did not necessarily coincide. Japan, for instance, had a total dependence on oil imports, so its government was averse to any collective action that OPEC could interpret as hostile. Instead, Tokyo was bent on carrying out government-to-government contacts with OPEC states to secure oil supplies—bypassing the U.S. multinational corporations that had historically fulfilled this role. Meanwhile, prospects for cooperation with Europe were also dim: the European Commission's efforts to develop a common energy policy had floundered after France refused to agree on any joint European position, and the United Kingdom was already moving unilaterally, betting on North Sea oil production to solve its own supply problems. And beyond the OECD, developing countries saw energy scarcity as an exclusive problem of the industrialized world—if anything, OPEC's success in raising oil prices and tightening its grip over its global market could serve as a model for other commodity producers.[13]

Even Kissinger, who had declared 1973 to be the "Year of Europe,"[14] held doubts about the urgency of Transatlantic energy cooperation. Despite his concerns that, facing a seller's market, oil-importing countries could be played off against each other by OPEC, he saw anything short of an oil-consumer cartel to be of little immediate benefit to the United States. And yet, the more realistic first steps towards OECD cooperation would revolve around emergency oil-sharing and energy research and development. Given Europe and Japan's lack of oil production, an oil-sharing

[13] "Memorandum From Philip A. Odeen of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger)," June 6, 1973, *FRUS*, Vol. XXXVI, Doc. 187.

[14] U.S.-Soviet Détente simultaneously aroused Western European fears of being excluded from a U.S.-Soviet superpower "condominium," reduced concerns about an imminent Soviet threat, and set the stage for the British accession into the European Community. This caused strain on the Transatlantic alliance, pushing Kissinger to announce his "Year of Europe" initiative. See Daniel J. Sargent, *A Superpower Transformed: The Remaking of American Foreign Relations in the 1970s* (Oxford: Oxford University Press, 2015), ch. 5.

mechanism would most likely compel the United States to ship some of its own domestic oil to its allies. Only if Saudi Arabia joined an embargo, or if an Arab oil boycott exclusively targeted the U.S. and spared its allies, would Washington benefit from sharing emergency oil supplies with Europe and Japan—and intelligence estimates deemed both scenarios unlikely. Along similar lines, the United States also had a clear lead in energy research, so international cooperation would go in the direction of America sharing its intellectual property with its commercial rivals—with little to gain in return. And the U.S. allies' lack of eagerness did not help: Arab oil producers were threatening to use the oil weapon against Israel's supporters, so Europe and Japan might as well keep the United States—and its over-identification with the Jewish state—at arm's length.[15]

And yet, even vague rumors about oil-importing countries coming together provoked a diplomatic row between the U.S. and Saudi Arabia. As soon as he got word of American discussions about a potential oil consumers' cartel, Yamani warned the U.S. Ambassador in Jeddah that this would place Saudi Arabia before the difficult task of choosing between its friendship with the United States and its allegiance to OPEC and the Arab world—in which case, it would be forced to pick the latter. No U.S. diplomatic assurances were sufficient to assuage Yamani's suspicions.[16] Instead, Saudi officials became increasingly vocal about the chasm that separated U.S. and Arab geostrategic interests. In July 1973, Saudi Defense Minister Prince Sultan remarked how "certain aspects of American policy cause serious embarrassment to Saudi Arabia." For instance, U.S. officials had recently given public assurances that American Phantom aircraft provided to Saudi Arabia would never be used against Israel—which was clear evidence for the

[15] "Memorandum From Philip A. Odeen of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger)," Doc. 187.

[16] "Telegram From the Embassy in Saudi Arabia to the Department of State," May 17, 1973, *FRUS*, Vol. XXXVI, Doc. 186.

kingdom's domestic and foreign detractors that the Saudi military would not support the Arab cause against Zionism. American officials' boasts about the prospects for growing Saudi investments in the U.S. economy implied that Saudi wealth would not serve the welfare of the Arab nation. Besides, President Nixon's strategy of using Saudi Arabia as one of his "pillars" in the Persian Gulf gave the impression that the Saudi monarchy was just trying to establish its own "sphere of influence, with Washington's blessing, over our small neighbors." In all these respects, the U.S.-Saudi relationship seemed detrimental to Faisal's quest for leadership in the Arab world, and for Saudi Arabia's regional and global prestige.[17]

But despite these grievances, some influential Saudi princes remained committed to establishing a "special relationship" between the United States and Saudi Arabia. Alas, there only seemed to be one workable path forward: that of duplicity. Interior Minister Prince Fahd, thought to be King Faisal's *de facto* successor and chair of Saudi Arabia's Supreme Petroleum Council, took up the task of strengthening U.S.-Saudi relations—addressing American officials' concerns about Faisal's recurrently angry remarks. Prince Fahd stepped up the kingdom's security assurances by promising that Saudi oil supplies would never be cut off or curtailed, not only from the United States, but also from Western Europe and Japan. But these promises could not be made public. Witnessing the confusion of U.S. officials at Saudi leaders' mixed messages, Prince Fahd explained a fundamental tenet of Saudi diplomacy: the Kingdom had "declared and undeclared policies," and unlimited oil sales to the U.S. would remain "undeclared"—tacit and hidden from public scrutiny. In fact, they could be recurrently contradicted by unfriendly Saudi rhetoric. Prince Sultan also asked American officials to see through the incongruous messages: Saudi Arabia was

[17] "Memorandum of Conversation with Saudi Minister of Interior and Second Deputy Prime Minister, Prince Fahd Ibn 'Abd- al-'Aziz al-Sa'ud," July 26, 1973, *FRUS*, Vol. XXXVI, Doc. 189.

vying for regional leadership, but its alliance with the United States was unpopular and constantly criticized. Hence, given that Saudi leadership in the Middle East was consistent with U.S. national interest, the United States would have to withstand occasional anti-American statements that were meant to raise Saudi Arabia's popularity in the eyes of the Arab public. From time to time, Saudi leaders would even stand up directly against the United States to "show that we are independent of American control." While lower-level officials were not supposed to understand this, the highest echelons of power would abide by this tacit understanding and accept the necessity of rhetorical duplicity. Prince Sultan thus made it a "jointly-accepted condition of our partnership therefore, that each side must make generous allowances for the different set of political realities under which the other party functions." Hypocrisy, it seemed, was the rule of the game.[18]

And yet, Kissinger remained disquieted by Saudi Arabia's conflicting messages. Frustrated by the lack of any short-term alternatives to Middle Eastern oil, he sought to gain greater leverage over the Saudi monarchy to mitigate the risks of what then seemed like a necessary evil. Clearly, if oil was the sole basis of a U.S.-Saudi special relationship, America could easily fall prey to Saudi blackmail. Instead, the relationship had to become a two-way street: the kingdom had to be made dependent on U.S. economic and military aid, so that it would have more to lose if it were to defy American interests. For instance, the United States could exploit Saudi fears of domestic insurgencies, invasions by neighbors like Iraq, and Soviet influence in South Yemen, all in a bid to increase arms sales to the Kingdom. The U.S. also had to send experts from the Treasury to find

[18] "Memorandum of Conversation with Saudi Minister of Interior and Second Deputy Prime Minister, Prince Fahd Ibn 'Abd- al-'Aziz al-Sa'ud."

solutions to the Saudi problem of accumulating increasingly unmanageable financial reserves—adding a monetary component to their partnership.[19]

Meanwhile, Kissinger would insist on treating the Persian Gulf and the Eastern Mediterranean as two separate regions and on trying to dissociate the question of oil from the Arab-Israeli conflict. This could be done by "enhancing the position of [pro-US] elements of the Saudi political power structure (Fahd and Sultan)," all while convincing Saudi authorities that they could only lose by standing at the forefront of the Arab-Israeli problem. Kissinger displayed a marked cynicism towards this conflict, which he saw as "almost insoluble." He expected "radical" Soviet-armed Arab regimes such as Syria to launch an offensive against Israel and suffer an overwhelming defeat—but he struggled to persuade Faisal to see an Israeli victory as a Soviet defeat. After all, Kissinger was convinced that no settlement acceptable to Israel would be popular among Arabs—for instance, the "Israelis would rather die" before relinquishing Jerusalem—so "Arabs [were] the ones that need to modify their position."[20] He thus considered it to be in Saudi Arabia's best interest to stay on the sidelines and let the Soviet-backed "radicals" take the blame for an unpopular settlement under Israel's terms.[21] Therefore, on August 31st, Nixon wrote to Faisal to reassure him about America's commitment to ensuring peace in the Middle East and safeguarding the stability of the Arabian Peninsula, before implicitly asking the monarch not to disrupt the flow of energy to rest of the world. To entice Faisal, Nixon promised to help usher in

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[19] "Memorandum of Conversation with Saudi Minister of Interior and Second Deputy Prime Minister, Prince Fahd Ibn 'Abd- al-'Aziz al-Sa'ud," July 26, 1973, *FRUS*, Vol. XXXVI, Doc. 189.

[20] "Memorandum of Conversation: Meeting Between Governor Love and Dr. Kissinger," August 10, 1973, *FRUS*, Vol. XXXVI, Doc. 191; "Memorandum From Philip A. Odeen of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger)," August 15, 1973, *FRUS*, Vol. XXXVI, Doc. 193.

[21] "Memorandum of Conversation: Meeting Between Governor Love and Dr. Kissinger," August 10, 1973, *FRUS*, Vol. XXXVI, Doc. 191; "Memorandum From Philip A. Odeen of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger)," August 15, 1973, *FRUS*, Vol. XXXVI, Doc. 193.

a new "period of great economic growth and development" for Saudi Arabia through generous American investments, managerial assistance, and joint ventures—which he wished to make sure would "proceed uninterrupted."[22]

The U.S. also had to build a plan to mitigate what was increasingly termed a "so-called energy crisis." The mix of tightening oil supplies, unrestrained global demand, and rising prices had already brought the phrase "energy crisis" into vogue.[23] As summarized by an Exxon executive, the world was "moving from a long period of abundant, low-cost energy supplies to one of gradually increasing supply constraints and rising costs," and the U.S. was facing "the growing possibility of serious energy shortages" because of structural market conditions. Americans had taken cheap and plentiful energy for granted, squandering it so much that they consumed a third of the world's energy supplies while accounting for only 6% of the global population. And in this context, mounting speculation of Arab countries' desire to use the oil weapon against the West added fuel to the fire, creating the perception of an imminent cataclysm.[24]

In his White House briefings and press conferences in early September 1973, Nixon described energy as one of the four main challenges facing the United States, but he refused to

[22] "Editorial Note," *FRUS*, Vol. XXXVI, Doc. 198; Richard Nixon to King Faisal bin Abdulaziz Al Saud, August 31, 1973, RG 59, Central Files 1970–73, POL 15–1 US, U.S. National Archives and Records Administration.

[23] By 1973, oil executives had begun speaking of a "world energy crisis," an "energy challenge," or an "energy problem" in their public talks around the United States. See J.K. Jamieson, "Remarks by the Chairman of the Board, Exxon Corporation, at the 91st Annual Meeting of Shareholders, New York," May 17, 1973, 4K767, Exxon Corporation, Speeches by Executives, 1973, ExxonMobil Historical Collection, Briscoe Center for American History, University of Texas at Austin, Austin, TX; S. Stamas, "Presentation on 'International Aspects of the Energy Problem' at the Council of Foreign Relations' 35th Annual Conference of the Committees on Foreign Relations," June 1, 1973, 4K767, Exxon Corporation, Speeches by Executives, 1973, ExxonMobil Historical Collection, Briscoe Center for American History, University of Texas at Austin, Austin, TX; Cliff Garvin, "Presentation to Tri-Cities Nuclear Industrial Council Members and Prominent Tri-Cities Guests," August 23, 1973, 2015-006/23, Exxon Corporation, Corporate Public Affairs, Speeches by Executives, 1973-1974, ExxonMobil Historical Collection, Briscoe Center for American History, University of Texas at Austin, Austin, TX.

[24] "Remarks by C.O. Peyton on 'Meeting the Energy Challenge' to DeKALB Board of Realtors, Decatur, Georgia," September 12, 1973, 2015-006/23, Exxon Corporation, Corporate Public Affairs, Speeches by Executives, 1973-1974, ExxonMobil Historical Collection, Briscoe Center for American History, University of Texas at Austin, Austin, TX.

speak of an energy "crisis," describing it instead as a short-term energy "problem." He expressed concern about Arabs leaders' growing discussions of the "oil weapon," and for the first time, placed equal blame on Arabs and Israelis for the Middle Eastern deadlock—which was picked up by the press as "the least pro-Israeli statement the U.S. administration has made in some time."[25] But Nixon also vowed to restore America's lost privileged position in which no country could threaten its energy security through a mix of government deregulation, energy conservation, and the search for alternative sources of power. The cabinet started working on an ambitious energy plan to increase American self-reliance, and Nixon challenged Congress to lift its red tape on Alaskan oil production, to soften coal mining environmental regulations, and to relax emission standards.[26] Meanwhile, he planned to increase the budget for energy research to develop new technologies such as coal gasification and liquefaction, and to come up with novel means of energy conservation. Nixon was ready to invest massively in building new nuclear fission power plants, and in developing promising renewable energies such as solar and geothermal power, and even expanding scientific boundaries into the nascent field of nuclear fusion. But his administration realized that it would take at least a decade for these measures to bear fruit.[27] For the foreseeable future, the United States was trapped in an uneasy predicament: estranged with Venezuela and Canada, and increasingly dependent on oil imports from the Middle East. Indeed, within six months of lifting MOIP's restrictions, America's oil import dependence approached 40% of its

[25] Richard Nixon, "Press Conference," September 5, 1973, *Public Papers of the Presidents of the United States: Richard Nixon; Containing the Public Messages, Speeches, and Statements of the President, 1973*, 1975; Richard Nixon, "White House Briefing," September 8, 1973, *Public Papers of the Presidents of the United States: Richard Nixon; Containing the Public Messages, Speeches, and Statements of the President, 1973*, 1975; John K. Cooley, "Qaddafi Answers Nixon: Libyan Leader Urges Tough Arab Oil Policy," *The Christian Science Monitor (1908-)*, September 8, 1973; "Editorial Note," *FRUS*, Vol. XXXVI, Doc. 202.

[26] Nixon, "White House Briefing."

[27] "Memorandum From Philip A. Odeen and David Elliott of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger)," September 14, 1973, *FRUS*, Vol. XXXVI, Doc. 203, https://history.state.gov/historicaldocuments/frus1969-76v36/d279.

domestic consumption—a far cry from the 12.2% cap originally envisioned by Eisenhower. Imports from Saudi Arabia more than doubled, from 316 to 780 thousand barrels per day between April and September 1973. And by then, Arab oil had already surpassed 25% of U.S. imports—or 10% of domestic consumption—about half of which came from Saudi Arabia.[28]

Nevertheless, America's surging demand was not enough to compel Middle Eastern countries to pump more oil. On the contrary, some Arab states like Kuwait and Libya were struggling to manage their soaring oil revenues and opted to cut back on production—which restricted global supplies.[29] In fact, with rising oil prices and growing government participation in oil production, Arab petrostates were accumulating unprecedented U.S. dollar reserves which, with soaring global inflation rates and a depreciating dollar, were losing their value. This made it economically more attractive for them to keep oil underground. As to the sparsely populated Arab countries of the Persian Gulf, they had little absorptive capacity for these monetary reserves: with few consumers and no significant industries, there was little that these countries could import from the rest of the world in exchange for their petroleum exports. This led them to accumulate persistent trade surpluses, which, according to the rules of the international monetary system, had to give way to balance of payments adjustments. But, unable to purchase enough foreign products to match their oil exports, the easiest path towards monetary adjustment was that of restricting their oil output—and tightening the world oil markets. This presented a significant challenge for

[28] U.S. Energy Information Administration, "Table 3.1: Petroleum Overview," Monthly Energy Review, July 2022, https://www.eia.gov/totalenergy/data/browser/index.php?tbl=T03.01#/?f=M; U.S. Energy Information Administration, "Table 3.3a: Petroleum Trade: Overview," Monthly Energy Review, July 2022, https://www.eia.gov/totalenergy/data/browser/index.php?tbl=T03.03A#/?f=M; U.S. Energy Information Administration, "Table 3.3c: Petroleum Trade: Imports from OPEC Countries," Monthly Energy Review, July 2022, https://www.eia.gov/totalenergy/data/browser/index.php?tbl=T03.03C#/?f=M; U.S. Energy Information Administration, "Table 3.7: Petroleum Consumption," Monthly Energy Review, July 2022, https://www.eia.gov/totalenergy/data/browser/index.php?tbl=T03.07A#/?f=M.

[29] "Memorandum of Conversation with Walter Levy," August 8, 1973, *FRUS*, Vol. XXXVI, Doc. 190.

Saudi Arabia to meet America's rising oil demand: if it did not find a way to redress its structural trade surpluses, the kingdom risked being penalized by the IMF.[30]

Saudi Arabia's reserve management challenge thus became the United States' problem, so in the summer of 1973, the Nixon administration debated proposals for integrating petrodollars—the dollar-denominated oil revenues of petroleum exporting countries—into the discussions of the IMF's Committee of Twenty (C-20) in charge of reforming the international monetary system after the end of Bretton Woods. However, this unleashed another diplomatic row between the United States and Saudi Arabia: when Yamani found out that the U.S. was making proposals to the IMF on the management of Saudi petrodollars without even consulting the kingdom, he feared that the U.S. would seize Saudi reserves and bring them under some form of international authority. Again, Yamani reprimanded the U.S. ambassador in Jeddah and threatened to cut back Saudi oil production. The embassy tried to contain the damage by sharing the American proposals to the C-20 with Prince Fahd, reassuring him that their actual goal was to exempt Saudi petrodollar reserves from international controls. But, despite Fahd's effusive reassurances and hopes for new forms of U.S.-Saudi monetary cooperation, the U.S. embassy doubted that the problem was truly settled.[31]

Thus, by early September, the Nixon administration grew increasingly weary of the marked deterioration of U.S.-Saudi relations. Kissinger traveled to Saudi Arabia to meet with Faisal in

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[30] "Memorandum From Philip A. Odeen of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger)," Doc. 187; "Memorandum of Conversation with Walter Levy"; "Editorial Note," *FRUS*, Vol. XXXVI, Doc. 195.

[31] Embassy in Jeddah to State Department, "Saudi Government Consideration of Ceiling on Oil Production," Telegram 03444, August 13, 1973, 1973JIDDA03444, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration; State Department to Embassy in Jeddah, "Saudi Government Consideration of Ceiling on Oil Production," Telegram 167505, August 23, 1973, 1973STATE167505, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration; "Editorial Note," Doc. 195; "Telegram From the Embassy in Saudi Arabia to the Department of State," August 26, 1973, *FRUS*, Vol. XXXVI, Doc. 197; "Telegram From the Embassy in Saudi Arabia to the Department of State," September 4, 1973, *FRUS*, Vol. XXXVI, Doc. 200.

person, but this only heightened his pessimism: the monarch lambasted U.S. policy in the Middle East, felt marginalized by America's choice of Israel and Iran as its main regional partners, and accused Americans of ignoring his country's security concerns. Kissinger warned Nixon that Faisal was hot-tempered and irascible—almost irrational. The monarch was "emotional about Zionism and difficult to talk to," and his general frustrations at the United States could not be ignored for much longer.[32]

Thereon, Saudi Arabia's mixed messaging on the oil weapon reached new heights. On September 5, 1973, in a summit of the Non-Aligned Movement in Algiers, Faisal advocated for moderation in a heated row of debates on the use of the Arab oil weapon—which earned him fiery verbal attacks from Qaddafi, who accused him of "serving the United States of America."[33] In front of the Libyan revolutionary's calls for raising prices, cutting back on production, and nationalizing the assets of foreign oil corporations, King Faisal's worries about upsetting the global oil price and marketing system seemed remarkably dovish.[34] But on that same day, the American press revealed that Faisal had allegedly pledged to Anwar Sadat that he would limit Saudi oil production increases, and U.S. oil executives claimed that Saudi designs went much further: this was actually an ultimatum, with threats of cutting daily oil production back by a million barrels if the U.S. did not change its policy towards Israel and the Arab world within six months. Rumors spread across U.S. newspapers contending that Sadat had finally tilted Faisal towards embracing the Arab oil weapon as a means for pushing Israel to retreat from the occupied territories. Allegedly, Sadat had convinced Faisal that he could not withstand the mounting doubts on his Arab

[32] "Memorandum From the President's Assistant for National Security Affairs (Kissinger) to President Nixon," September 4, 1973, *FRUS*, Vol. XXXVI, Doc. 199.

[33] Cooley, "Qaddafi Answers Nixon."

[34] John K. Cooley, "Arab States Discuss Oil Strategy: A Big Jump Ahead," *The Christian Science Monitor (1908-)*, September 5, 1973.

nationalism and his concern for Jerusalem's Muslim holy places for much longer—or else the monarchy could be rocked by popular revolts or targeted by Palestinian insurgents.[35]

Thus, throughout September 1973, panic began filling the pages of the U.S. press, with titles such as and "Saudis Threaten Oil Cut," "Can the Arabs really blackmail us?" and "The Arab Oil Squeeze: 'A Mad, Mad Scramble.'"[36] Renowned Middle East correspondent David Hirst warned that, despite failing in 1956 and 1967, "Arabs' 'Oil Weapon' Might Just Work This Time."[37] And yet, the U.S. intelligence community continued to dismiss the likelihood of any serious Arab oil cutoff against the United States. A CIA report exploring six potential scenarios for Arab oil embargos against the West insisted that "None [could] be rated as likely to occur." The only scenario deemed fifty-fifty likely was a Libyan embargo against the United States alone. An all-Arab embargo against the U.S., Western Europe, and Japan, in contrast, was ranked among the most improbable—and none of this would occur without a new Arab-Israeli War, "an event which we do not expect during the next two or three years." And yet, the CIA did mention that, if an Arab-Israeli war were to erupt, Saudi Arabia would be more likely to enforce an embargo not just against the United States, but also Europe and Japan, and would then be the last country to abandon the embargo—seeing it as an attractive means for asserting its "moral and even political leadership in the Arab world."[38]

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[35] David Hirst, "Oil: Threat and Promise: Blackmail Bid by Arabs Poses Energy, Diplomatic Crisis for US," *Boston Globe (1960-)*, September 9, 1973.

[36] "Saudis Threaten Oil Cut," *Newsday (1940-)*, September 5, 1973; Robert E. Hunter, "Can the Arabs Really Blackmail Us?," *New York Times*, 1973; "The Arab Oil Squeeze: 'A Mad, Mad Scramble,'" *Newsweek*, September 17, 1973.

[37] David Hirst, "Arabs' 'Oil Weapon' Might Just Work This Time: 'Oil Weapon' May Work This Time," *Los Angeles Times (1923-1995)*, September 9, 1973, https://www.proquest.com/news/docview/157292125/abstract/6D0C374FA9624EE4PQ/5.

[38] "Paper Prepared in the Office of Economic Research, Central Intelligence Agency," September 1973, *FRUS*, Vol. XXXVI, Doc. 206.

On October 5, the National Security Council began to outline potential policy options to secure short- and long-term oil supplies—including multilateral arrangements with Europe and Japan, bilateral partnerships with Saudi Arabia and Iran, and unilateral efforts to achieve domestic self-sufficiency. Again, the Arab-Israeli conflict was subsumed among a longer list of regional squabbles, any of which could ignite an oil crisis—including tensions between Iran and Iraq, Iraq and Kuwait, and Libya and the Gulf's conservative monarchies. The NSC thus raised a list of questions that remained to be addressed: whether an oil consumers' cartel would be strategically helpful or unnecessarily provocative; if U.S.-Gulf relations should be limited to energy or brought into comprehensive economic and security agreements; and whether any such arrangements should be secret or public, formal or informal. Alas, the Nixon administration's debates would be brought to a very premature test. On the next day, on October 6, 1973, Syria and Egypt launched a joint surprise attack on Israel during the Yom Kippur and Ramadan festivities, catching the Israeli public—and the U.S. government—completely off guard. The perilous scenario that the CIA could not foresee—despite repeated Saudi and Egyptian threats to the contrary—had swiftly materialized. Like a self-fulfilling prophecy, the First Oil Shock had begun.[39]

II. Divide and Conquer: The Arab Oil Embargo, the Collapse of U.S.-Saudi Relations, and the Breakdown of Western Cooperation

In the events commonly known as the Yom Kippur War or the October War, the State of Israel faced its most serious military challenge since its foundation in 1948. After years of a very favorable military stalemate in the Sinai and the Golan Heights, and overly confident on its military

[39] "Paper Prepared by the National Security Council Staff: 'Oil Supply Arrangements: Alternative Approaches to the Major Producer and Consumer States,'" October 5, 1973, *FRUS*, Vol. XXXVI, Doc. 208.

superiority after its overwhelming victory in 1967, the Israeli Defense Forces (IDF) had ignored the Mosad's reports about a potential military buildup in Egypt and Syria, including the staging of military exercises along the Suez Canal and the call-up of reserves in the Syrian army. Only with obvious signs of an imminent attack—including unprecedented infantry concentrations on the Egyptian and Syrian borders, the departure of Soviet advisors and their families, and the suspected arrival of Soviet shipments of new military equipment—did the IDF launch defensive preparations, just hours prior to the rapid advance of Egyptian and Syrian forces into the Sinai Peninsula and the Golan Heights during the Jewish religious fast of Yom Kippur on October 6, 1973.[40]

Caught completely off guard after repeated CIA assurances that such an event would be very unlikely, and without any plan to fend off an increasingly likely Arab oil embargo, Kissinger scrambled to come up with an emergency response. Recently appointed as Secretary of State by an embattled Nixon, he took a cavalier attitude, claiming that Arabs "have to learn what the limits are or they will nibble us to death."[41] But America's first diplomatic moves proved quite ungainly: by calling for a ceasefire and a return to the October 5 *status quo ante*, U.S. Ambassador to the United Nations John Scali effectively asked Egyptian and Syrian troops to retreat from the Sinai and the Golan Heights—which they considered to be their own territories under an unlawful Israeli occupation since the 1967 Six-Day War. Ambassador Scali's words thus amounted to a tacit U.S. acceptance of Israel's perpetual seizure of Arab lands. Despite Yamani's purported wish to avoid a confrontation with the United States, this was enough to make King Faisal furious. In the

[40] For accounts of the 1973 Arab-Israeli War, and specifically Israel's lack of strategic preparation, see Howard Blum, *The Eve of Destruction: The Untold Story of the Yom Kippur War*, 1st ed. (New York: Perennial, 2004); Abraham Rabinovich, *The Yom Kippur War: The Epic Encounter That Transformed the Middle East*, First paperback edition. (New York: Schocken Books, 2004); Chaim Herzog and Michael Herzog, *The War of Atonement: The Inside Story of the Yom Kippur War*, Reprint edition (Skyhorse, 2018).

[41] "Minutes of Washington Special Actions Group Meeting," October 7, 1973, *FRUS*, Volume XXV, Arab-Israeli Crisis and War, 1973, Doc. 121.

monarch's own words, "the separation of economics and politics [was] no longer possible," and he was allegedly planning to cut down on oil production and reduce it by 5% per month until Israel retreated to its pre-1967 borders. Yamani thus made his first wartime threats: Saudi Arabia would target U.S. interests either if Israel scored a major military victory, or if, on the verge of an Israeli defeat, the U.S. came to its assistance.[42]

By mere fate, the onset of military hostilities happened to coincide with an OPEC summit in Vienna on October 8. While it had already been scheduled for months and was unrelated to the war, its confluence with speculation on Arabs' use of the oil weapon raised the prospects of a global oil crisis. In an unprecedented move, OPEC ministers unilaterally put an end to the 1971 Tehran agreement and its five-year oil price freeze, raising instead the posted price of oil by 70%—almost doubling it to over $5 per barrel. Thus, while Israel, Egypt and Syria were facing each other off on the battlefield, another economic clash was igniting between OPEC governments, the multinational oil corporations, and oil-importing states. Then, on October 10, the Arab petroleum ministers left for Kuwait to develop their "war oil policy" in a summit of the Organization of Arab Petroleum Exporting Countries (OAPEC)—which, unlike OPEC, included the belligerent Egypt and Syria.[43] Facing this rapidly escalating situation, French Foreign Minister held emergency talks with Kissinger. To his dismay, however, the Secretary of State confessed that "our problem on oil is that we do not have a strategy." Dumbfounded, Jobert rebuked him: the State Department had

[42] "Memorandum From William B. Quandt of the National Security Council Staff to the President's Deputy Assistant for National Security Affairs (Scowcroft)," October 10, 1973, *FRUS*, Vol. XXXVI, Doc. 210; "Memorandum by the Chairmen of Exxon Corporation (Jamieson), Mobil Oil Corporation (Warner), Texaco, Inc. (Granville), and Standard Oil Company of California (Miller)," October 12, 1973, *FRUS*, Vol. XXXVI, Doc. 212.

[43] For overviews of the Vienna OPEC summit and the Kuwait OAPEC meeting, see Yergin, *The Prize*, 581–88; Garavini, *The Rise and Fall of OPEC in the Twentieth Century*, 216–18.

been making reports on a potential oil crisis for at least two years! But Kissinger insisted: the United States truly had no actionable plan.[44]

Thus, after having neglected Western energy cooperation, the U.S. began to urgently press for emergency talks with Europe and Japan. Fearing that America's allies were going into a state of "panic," the NSC hoped that an agreement for mutual aid, or at least a joint public statement, could show enough Western unity to deter an Arab oil boycott. In a stark departure from their previous ambivalence about an emergency oil sharing scheme, NSC staff argued for a policy of equal hardship as a basis for cooperation: any Arab oil shortage should be distributed equitably among industrialized consumers, not according to their dependence on Arab oil. Indeed, given that the U.S. would fare worse under a discriminatory targeted embargo, and Europe and Japan would bear more hardship under a generalized Arab cutback, the idea of equal hardship could serve as an insurance mechanism to mitigate risks. But even then, the Cabinet remained skeptical: the American public would never accept shipping oil to Europe and Japan during a shortage, and on the flipside, it was unrealistic to expect European and Japanese consumers to suffer for Americans' sake. Instead, Kissinger expected that these governments "would go crazy:" blaming everything on the U.S., turning their backs on Israel, and kowtowing to the Arabs. Even worse, they could try to capitalize on the situation to increase their influence in the Arab world—sending their own technicians and oil companies to the Middle East. And this came at a terrible time for the Nixon administration, which had suffered an enormous reputational damage after the Senate Watergate hearings, the scarring revelation of the Watergate tapes, and ongoing threats of impeachment.[45]

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[44] "Memorandum of Conversation: 'The Secretary's Conversation with French Foreign Minister Jobert,'" October 11, 1973, *FRUS*, Vol. XXXVI, Doc. 211.

[45] "Minutes of Washington Special Actions Group Meeting," Doc. 121; "Memorandum From Charles A. Cooper of the National Security Council Staff to Secretary of State Kissinger," October 13, 1973, *FRUS*, Vol. XXXVI, Doc. 213; "Minutes of Washington Special Actions Group Meeting," October 15, 1973, *FRUS*, Vol. XXXVI, Doc. 215.

But if the prospects for international cooperation were grim, domestic policy options seemed even more limited. In the Washington Special Actions Group (WSAG), convened by Nixon to address the Arab-Israeli War and the mounting energy crisis, the Cabinet struggled to find a satisfactory way to protect U.S. consumers from a potential petroleum shortage. Arab oil had grown to represent 10% of U.S. consumption, so if OAPEC were to cut off its shipments to the United States, it would be almost impossible to fill the gap unilaterally: U.S. oil companies claimed that they were producing oil at full capacity; legal and environmental regulations prevented a rapid switch of electricity production from fuel oil to coal; and Alaskan oil remained underground. The administration even lacked sufficient information about its own emergency oil stocks: Europe could withstand an oil cutoff for 60 days, but the Cabinet was unsure of whether U.S. emergency petroleum reserves could hold off for several months or just a few weeks. Kissinger, however, remained mildly optimistic: he insisted that any doomsday scenario remained unlikely, so the administration only needed a contingency plan. He trusted Princes Fahd and Sultan's assurances and expected Saudi official policy to contradict its aggressive anti-American rhetoric. In mid-October, he still claimed that "so far no one has threatened us," and "an oil cutoff was not mentioned in any of the conversations I have had in the last three weeks." Little did it matter that none of these "official" assurances had come from the monarch.[46]

Credible threats did loom on the horizon, however. Israel was suffering its heaviest casualties since 1948—reaching a total of 7,000, which, for a small country like Israel, was the equivalent of about 300,000 for the United States.[47] This traumatized a population that still

[46] "Memorandum of Conversation of Washington Special Actions Group Meeting," October 14, 1973, *FRUS*, Vol. XXXVI, Doc. 214; "Minutes of Washington Special Actions Group Meeting," Doc. 215.

[47] "Memorandum of Conversation: Meeting with Oil Company Executives," October 26, 1973, *FRUS*, Vol. XXXVI, Doc. 230.

remembered the Holocaust and feared once again finding itself on the verge of annihilation. Witnessing the rapid advance of Egyptian and Syrian troops, and sensing Western apprehension about the Arab oil weapon, Prime Minister Golda Meir was losing hope: “The little help we have from the international community will disappear, they will throw us to the dogs.”[48] Then, on October 12, as the IDF approached its darkest hour, she implored Nixon to send arms and planes to Israel as “a question of life and death for us.” The Nixon administration thus felt compelled to act on behalf of its ally, but it struggled to find a discrete means of arming Israel that would not produce an Arab backlash—an attitude that the Israel government perceived as “foot-dragging,” and left Meir with “a feeling of near despair.” She insisted that Nixon should resupply Israel and send 40 Phantom aircraft urgently.[49] Finally, on October 15, Kissinger informed Faisal that, following the Soviet Union’s “massive airlift of arms” to Egypt and Syria, the United States “had no alternative” but to airlift military supplies to Israel to prevent an alleged Communist victory. On the next day, the *Washington Post* publicized the airlift, ending any hopes for discretion.[50]

Kissinger’s letter deeply offended Faisal, who accused the Secretary of State of not taking him seriously and ignoring his warnings. He was also outraged by Kissinger’s attempt to depict an eventual Arab defeat as a victory for the capitalist West: under no circumstance would he betray

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[48] In October 2021, the Israeli State Archives published 1,300 pages of transcripts of high-level Israeli government discussions during the Yom Kippur War, commemorating its 48th anniversary. See Emanuel Fabian, “World Will ‘Throw Us to the Dogs’: Yom Kippur War Papers Reveal Golda’s Despair,” *The Times of Israel*, October 8, 2021.

[49] “12 October 1973 – An Atmosphere of Crisis,” *The Yom Kippur War, October 1973* (Israeli State Archives, 2021); Israeli Embassy in Washington to Israeli Prime Minister’s Office, מברק ול/852, October 12, 1973, מברקים שנשלחו משגרירות ישראל בוושינגטון אל לשכת ראש הממשלה במלחמת יום הכיפורים, 5-31.10.1973, Israeli State Archives; Israeli Prime Minister’s Office to Israeli Embassy in Washington, מברק לו/73, October 12, 1973, מברקים שנשלחו מלשכת ראש הממשלה אל שגרירות ישראל בוושינגטון במלחמת יום הכיפורים, 5-31.10.1973, Israeli State Archives; Israeli Prime Minister’s Office to Israeli Embassy in Washington, מברק לו/84, October 12, 1973, מברקים שנשלחו מלשכת ראש הממשלה אל שגרירות ישראל בוושינגטון במלחמת יום הכיפורים, 5-31.10.1973, Israeli State Archives; Israeli Prime Minister’s Office to Israeli Embassy in Washington, מברק לו/79, October 12, 1973, מברקים שנשלחו מלשכת ראש הממשלה אל שגרירות ישראל בוושינגטון במלחמת יום הכיפורים, 5-31.10.1973, Israeli State Archives.

[50] “Editorial Note,” *FRUS*, Vol. XXXVI, Doc. 216.

the Arab cause against Israel in the name of anti-Communism. Prince Fahd thus informed the Secretary of State that, despite all his efforts, U.S.-Saudi relations would "never be the same." Having run out of options, Saudi Arabia had been forced to impose economic sanctions on the United States. Kissinger still tried to dismiss this ultimatum: Faisal's anger was just "temporary," as he was prone to "emotional blowoffs." Thus, instead of looking for an immediate solution to the threat of a Saudi embargo, the Cabinet proceeded to brainstorm medium-term measures to counteract America's energy vulnerability, which had become a fact of life given Saudi Arabia's "monopoly position" in the global oil market.[51]

But Kissinger's predictions were rapidly proven wrong. In the OAPEC summit, Egypt, Kuwait, and Saudi Arabia finally reached a common position on the use of oil as a tool of economic warfare. All Arab oil producers except Iraq agreed to decrease production by 5% per month until Israel retreated to its pre-1967 borders in accordance with U.N. Resolution 242,[52] and until the "national and legal rights" of the Palestinians were restored.[53] Any country that gave "official and

[51] "Editorial Note," *FRUS*, Vol. XXXVI, Doc. 216; "Minutes of Washington Special Actions Group Meeting," October 16, 1973, *FRUS*, Vol. XXXVI, Doc. 217; Embassy in Jeddah to State Department, "King's Reply to Secretary's Letter," Telegram 04543, October 16, 1973, 1973JIDDA04543, Central Foreign Policy Files, 1973-79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration.

[52] At the outset of the Six-Day War, U.N. Security Council Resolution 242 expressed the "inadmissibility of the acquisition of territory by war" and called for a just peace settlement in the Middle East. However, the English-language version of its article 1. (i) opened the way to conflicting linguistic and legal interpretations: by vaguely calling for the "Withdrawal of Israel armed forces from territories occupied in the recent conflict," the Israeli government interpreted that it could be in compliance with the resolution by withdrawing from at least <u>some</u> of the occupied territories. In contrast, Arab states and Palestinian representatives claimed that Israel had to withdraw from <u>all</u> the territories. During the Oil Shock, this linguistic ambiguity in the English language—which does not exist, for instance, in Russian—would lead Arab states to demand clarification from Western countries as to their interpretation of the Resolution, under the threat of an embargo. See "United Nations Security Council Resolution 242: The Situation in the Middle East," November 22, 1967, United Nations Peacemaker, UN Department of Political and Peacebuilding Affairs (DPPA), https://peacemaker.un.org/sites/peacemaker.un.org/files/SCRes242%281967%29.pdf.

[53] The Iraqi government refused to lose any of its oil income to wage an economic war against the West. Instead, it advocated for nationalizing all Western corporate assets—which it claimed could increase Arab states' income even further and truly punish the capitalist West. Hence, Iraq did not join the production cutoffs or the embargo.

overt" military support to Israel would be deemed hostile and suffer a total embargo, and on the flipside, any state that assisted Arabs would continue getting their oil supplies at pre-war levels.[54] These terms were deliberately kept vague, leaving Arabs much freedom of maneuver: they did not produce any initial list of "friendly," "neutral" or "unfriendly" countries, and expected the European and Japanese governments to put diplomatic pressure on the United States to show their "friendliness."[55] Oil executives thus warned Nixon's cabinet that an Arab oil embargo to the United States was forthcoming, and pleaded the administration to soften its pro-Israeli stance, but Kissinger dismissed the companies as having an "unparalleled record of being wrong," stubbornly insisting that he did not expect any Arab embargo for the foreseeable future.[56] Privately, however, his frustration was growing: the White House still had no short-term plan to respond to any potential cutback or to rising oil prices; there was no plan for an oil-consuming country cartel—not even a decision on whether this was desirable or not. One of his aides lamented the loss of a recently bygone era when America's "big problem was […] to keep foreign oil out […] and Middle East oil meant nothing to us."[57]

Meanwhile, Kissinger was witnessing how Western cooperation was crumbling before his eyes. European governments were nervously moving towards accommodation with OPEC's Arab states, driving a wedge at the heart of the Atlantic Alliance. In fact, the war had already strained their ability to import Middle Eastern oil: due to the fighting, the Gulf countries' pipelines to the Mediterranean ports of Sidon and Lattakia had shut down. European countries were thus trying to

[54] "Memorandum of Conversation," October 17, 1973, *FRUS*, Vol. XXXVI, Doc. 218.

[55] "Memorandum Prepared in the Office of Economic Research, Central Intelligence Agency," October 19, 1973, *FRUS*, Vol. XXXVI, Doc. 223.

[56] "Minutes of Washington Special Actions Group Meeting," October 17, 1973, *FRUS*, Vol. XXXVI, Doc. 219.

[57] "Minutes of the Secretary of State's Staff Meeting," October 18, 1973, *FRUS*, Vol. XXXVI, Doc. 220.

protect their remaining oil imports from the Arab world by distancing themselves diplomatically from the United States. They planned to stop any oil re-exports to the American market and refused to refuel U.S. military aircraft in European air bases—for fear of any Arab retaliation. Even the government of Japan, which had historically maintained an uninvolved neutral stance vis-à-vis the Arab-Israeli conflict, found itself under Saudi pressure to make official pro-Arab statements, with threats of serious disruptions to its oil supplies. And in the Americas, the Canadian government also placed export restrictions on the U.S. to keep Arab oil flowing into its import-dependent Atlantic provinces.[58]

But the oil crisis was just getting started. On October 19, 1973, Nixon asked Congress to appropriate $2.2 billion in emergency aid to Israel to cover the equipment sent during the airlift. While he framed this as a Cold War imperative—it matched the staggering levels of Soviet military assistance to Egypt and Syria and accompanied another aid package for Cambodia—this triggered a collective response from Arab oil producers. On the same day, Libya proclaimed an immediate embargo on oil exports to the United States, followed by Abu Dhabi, Qatar, Bahrein, Kuwait, and Dubai. Refusing to lose its oil income, Iraq did not join the embargo or the production cutbacks, but it called for the nationalization of all U.S. assets in the Arab world.[59] Saudi Arabia, Qatar and Kuwait then announced that they would reduce their production even further, from 5 to 10%. Finally, on October 23, Prince Fahd informed Kissinger that Saudi Arabia was placing an oil embargo on the United States until Israel withdrew from all the occupied Arab territories—including Jerusalem—and retreated to its pre-1967 borders. The U.S. had thus become the first

[58] "Minutes of Washington Special Actions Group Meeting," October 18, 1973, *FRUS*, Vol. XXXVI, Doc. 221; "Minutes of the Secretary of State's Staff Meeting," October 19, 1973, *FRUS*, Vol. XXXVI, Doc. 222.

[59] Having nationalized Exxon and Mobil's assets two weeks prior, Iraq thus proceeded to also seize Dutch assets in the country as punishment for the Netherlands' allegedly pro-Israeli stance.

"unfriendly" country on OAPEC's blacklist, losing 10% of its oil supplies overnight. To make matters worse, non-Arab oil producers such as Iran, Indonesia and Venezuela announced that they were producing close to capacity and only had a limited margin of maneuver to make up for the Arab cutbacks.[60]

Thus, with the military tide turning in Israel's favor, Arab oil producers expanded their use of the oil weapon—effectively shifting warfare from the battlefield into the economic realm. Deploying "divide and conquer" tactics, OAPEC drew rifts between the United States and its allies and within the European Community. For instance, Abu Dhabi announced that France and the United Kingdom were "friends of the Arabs" and would not experience any cuts in their oil supplies. Unlike the United States, France and Britain took explicitly pro-Arab stances: a French spokesman expressed "political displeasure with Israel"—even hinting at potential arms supplies to Arab countries—and British officials condemned Israel's "defiant clinging" to lands taken by force in 1967. A *Times of London* editorial went as far as to claim that, being fought in the Sinai and the Golan Heights, "the war so far is being fought not on Israeli but on Arab soil."[61] In contrast, the Netherlands was blacklisted and embargoed: its Parliament had recently passed a resolution supporting Israel's right to exist; the Dutch government had refuted the illegality of Israel's occupation of Arab lands; Dutch volunteers were allegedly fighting in Israel; the Defense Minister was photographed at a pro-Israeli rally; and national airline KLM was singled out for allegedly flying arms and volunteers to Tel Aviv. The Netherlands thus became the second country to be

[60] Richard Janssen, "Shifting Loyalties: As U.S. Intensifies Aid To Israelis, Europeans Move Closer to Arabs," *Wall Street Journal (1923-)*, October 22, 1973; Richard Eder, "4 More Arab Governments Bar Oil Supplies for U.S.," *New York Times*, 1973; "Eight Arab States Join in Oil Boycott over US. Policies," *The Globe and Mail (1936-)*, October 22, 1973; "Arab Embargo Of Oil to U.S. Becomes Total," *The Washington Post, Times Herald (1959-1973)*, October 22, 1973; "Non-Arab Oil States Will Not Boost Output," *The Washington Post, Times Herald (1959-1973)*, October 24, 1973; "Message From Prince Fahd of Saudi Arabia to the President's Assistant for National Security Affairs (Kissinger)," October 23, 1973, *FRUS*, Vol. XXXVI, Doc. 224.

[61] Janssen, "Shifting Loyalties."

placed on OAPEC's "unfriendly" list—generating an oil shortage that forced the Dutch government to ban driving on Sundays.[62] Meanwhile, West Germany and Italy remained in an uneasy "neutral" or "non-preferred" status, which reduced their oil supplies in line with the Arab production cutoffs. After all, these countries' historical guilt over the Holocaust made it politically unpalatable for them to make any overtly anti-Israeli pronouncements. Additionally, German Chancellor Willy Brandt feared estranging himself with the United States, whose support he needed for his cherished *Ostpolitik* towards East Germany and to avert tensions in Berlin. As a result, OAPEC divided the European Community into three tiers, dashing any hopes for a common energy response. Even worse, if any country aided the Netherlands, it would be punished.[63]

The Arab oil embargo against the United States and the Netherlands thus rippled across North America and Western Europe. Given the presence of U.S. and Dutch companies in Middle Eastern oil production—from Exxon and Mobil to Royal Dutch Shell—it ironically befell upon these companies to apply the embargo upon their own home countries, under threats of being expropriated or expelled from the Arab world. Additionally, the Dutch port of Rotterdam was a leading center of European oil trade and refining. In fact, only 20% of Dutch oil imports remained in the Netherlands, the rest being processed and reexported to the continental Europe. Hence, Rotterdam provided 20% of Europe's oil—including 40% of West Germany's Arab oil and 50% of Belgium's and Luxembourg's. The Arab oil embargo on the Netherlands thus not only dealt a severe blow to the Dutch economy, but it also repercussed across the rest of Continental Europe. And even across the Atlantic, the Dutch Caribbean islands of Aruba and Curaçao also served as

[62] "Dutch, Without Arab Oil, Ban Sunday Driving," *The Washington Post, Times Herald (1959-1973)*, October 31, 1973."Arabs Weighing Oil-Hungry Nations on Scale of Friendly Intentions," *The Hartford Courant*, December 6, 1973.

[63] Janssen, "Shifting Loyalties."

refining stations for Arab oil shipments towards the Americas—so the Dutch embargo also reduced oil supplies from the Antilles all the way to Canada.[64]

And in North America, the embargo against the United States had a similar spillover effect on Quebec. The U.S. city of Portland, Maine, served as a key refining and transit center for oil headed to Montreal, so the embargo also indirectly reduced Canada's Arab oil imports by 25%. The Trudeau government begged Arab leaders to exempt the Portland refinery from the embargo—but instead, OAPEC demanded that Canada take a firm anti-Israeli stance and condemn America's support for the Jewish state.[65] The Canadian Foreign Minister thus rushed to announce new measures against the United States, such as stopping any oil shipments to the U.S. market from refineries in Nova Scotia and Newfoundland, and imposing new taxes on oil exports to the U.S. all to preserve his country's "neutral" status. A fuming Kissinger thus accused him of behaving "like the 'Arabs of the North' in the Western Hemisphere."[66] The Secretary of State lamented the lost years of negotiations on a Continental Oil Policy that were meant to avert this precise scenario—but alas, the Canadian government had only grown more "allergic" to any association with the United States. For Kissinger, this epitomized the breakdown of Western cooperation: "every one of our allies calls on us on the basis of indivisibility of interests when it suits their purposes but pursues a totally independent policy when it pursues their interest."[67] In this context, it was impossible for him to have fruitful discussions with the United Kingdom, France, or

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[64] "Minutes of the Secretary of State's Staff Meeting," October 25, 1973, *FRUS*, Vol. XXXVI, Doc. 227; "Memorandum From Jan Lodal and Helmut Sonnenfeldt of the National Security Council Staff to Secretary of State Kissinger," December 4, 1973, *FRUS*, Vol. XXXVI, Doc. 261.

[65] "Canada Must Change Stand or Face New Curbs, Arab Says," *The Globe and Mail (1936-2017)*, November 1, 1973."Canada Must Change Stand or Face New Curbs, Arab Says"; "National Intelligence Estimate NIE 1–1–73: 'The World Oil Crisis: Economic and Political Ramifications for Producers and Consumers,'" December 5, 1973, *FRUS*, Vol. XXXVI, Doc. 262.

[66] "Canada May Cut Oil for East Coast," *The Washington Post (1877-1997)*, November 6, 1973.

[67] "Minutes of the Secretary of State's Staff Meeting," October 24, 1973, *FRUS*, Vol. XXXVI, Doc. 226.

Canada—especially as the United States had little to offer: by then, it was too late to establish any emergency oil sharing scheme, especially at a time in which the U.S. was running short on supplies.[68]

Kissinger thus pinned his hopes on mediating the Arab-Israeli conflict to convince Faisal to at least soften the embargo. By October 25, Israel was rapidly pushing back against both Egypt and Syria: the IDF had driven the Syrian army out of the Golan Heights and was threatening to traverse the Suez Canal. After Israeli armed forces trapped the whole Egyptian Third Army in the Sinai, the Soviet Union feared another humiliating Arab defeat and pressed for rapid negotiations—or else it would send its own troops to the Middle East. This provided Kissinger with a unique opportunity to broker an Arab-Israeli ceasefire along with the USSR at the U.N. Security Council. Having forced Israel to hold back on crossing the Suez Canal and on obliterating the Egyptian Third Army—and thus preventing an Arab defeat—Kissinger could position himself as an honest broker for an Arab-Israeli peace settlement. From this position of relative strength, he sought to twist Faisal's arm: only the United States could effectively mediate peace talks between Israel and the Arab World—but he would not do so under blackmail. But again, Faisal refused to lift the embargo as a precondition for U.S. participation in peace talks: instead, only real diplomatic progress could justify alleviating economic sanctions on the U.S.[69]

The clock was ticking—not just for the United States, but for the world. According to oil companies' best estimates, the U.S. was only six-to-eight weeks away from experiencing severe oil shortages. By January, the corporations' emergency stocks would start running out—right as energy demand was expected to spike at the height of winter. Nixon thus had to prepare the U.S.

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[68] "Minutes of the Secretary of State's Staff Meeting," October 26, 1973, *FRUS*, Vol. XXXVI, Doc. 229.

[69] "Memorandum of Conversation: Meeting with Oil Company Executives," Doc. 230.

public for a harsh reality: come the winter, oil rationing might become inevitable, which would require sacrifices from all Americans. The outlook seemed especially bleak for the U.S. Midwest and Northeast, which were most reliant on oil imports and far removed from the country's Southwestern oil fields. This would be made even worse if Canada followed through on its export reductions to the United States. Beyond North America, industrialized countries were rushing to establish energy-savings program to mitigate oil producers' blow to their economies. For instance, Japan, which relied on Arab oil for 40% of its consumption, restricted oil and electricity supplies by 10% to eleven major industries. Thus, after the decade of 10% annual GDP growth that had come to be known as the "Japanese miracle," fears of a major recession brought about the collapse of the Tokyo stock exchange.[70] Meanwhile, dreading the loss of Rotterdam's refined oil, West Germany also announced a 12% cut in its energy consumption. And even countries that OAPEC deemed "friendly," like France and the U.K., were not free from hardship: under the principle of "equal misery," multinational oil companies were redirecting non-Arab oil to the embargoed and neutral countries—which cost these "friendly" countries about 5% of their supplies. In this context, economic panic rippled across borders and exacerbated energy nationalisms, pushing each country to bring, control, and keep oil supplies within their territories. This only added to the success of the Arab oil weapon.[71]

[70] State Department to Embassy in Tokyo, "GOJ Attitude Toward Arab Pressures," Telegram 222140, November 10, 1973, 1973STATE222140, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration; "Arab Oil Cut Rocks Japan Economy," *The Korea Times*, November 23, 1973.

[71] State Department to Embassy in Tokyo, "Arab Boycott and Oil Sharing," Telegram 224421, November 14, 1973, 1973STATE224421, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration; "Memorandum From James H. Critchfield, Special Assistant to the Deputy Director of Operations, Central Intelligence Agency, to Director of Central Intelligence Colby," November 2, 1973, *FRUS*, Vol. XXXVI, Doc. 232; "Memorandum From the Under Secretary of State for Economic Affairs (Casey) to Secretary of State Kissinger," November 3, 1973, *FRUS*, Vol. XXXVI, Doc. 235; "Memorandum From Jan Lodal and Helmut Sonnenfeldt of the National Security Council Staff to Secretary of State Kissinger."

The world's economic outlook was only set to worsen. In November, Arab countries made their second 10% production cutback. Despite U.S. efforts to negotiate face-saving loopholes with Saudi Arabia—for instance, allowing third countries like Canada to re-export oil to the U.S. market—the Saudi government worked diligently to harden the terms of the embargo: it banned all oil shipments to Caribbean islands that reshipped or refined oil for the United States, like the Bahamas and Trinidad and Tobago—even if this affected other Caribbean countries. The expected petroleum shortfall thus increased from 10 to 15% of U.S. consumption, or from 2 to 3 million barrels per day—which made oil rationing increasingly inescapable. And to make matters worse, Nigeria, which had risen to become America's second largest supplier of unrefined crude, took advantage of the tight global oil market to double its posted oil price from $4 to $8 per barrel—adding more pressure on U.S. inflation and trade balances.[72]

Thus, on November 7, 1973, the Nixon addressed the nation from the Oval Office to announce new dramatic measures to face what was truly becoming an energy crisis. He unveiled a new flagship program: Project Independence. Comparing it in ambition to the Manhattan and Apollo Projects, Nixon claimed that only a radical turn towards energy self-sufficiency could revert the tremendous vulnerability that had come with America's growing reliance on Arab oil. Project Independence thus mixed energy conservation with environmental deregulation in an ideologically incoherent amalgam of federal interventionism and *laissez-faire* economics. For instance, it sought to tackle the American public's profligate energy consumption by reducing the amount of fuel available for aircraft, limiting heating for homes and offices, lowering interior temperatures, cutting down on the Federal Government's energy consumption, and setting

[72] "Memorandum From the Under Secretary of State for Economic Affairs (Casey) to Secretary of State Kissinger"; "Saudi Arabia Reported to Widen Oil Embargo," *The Boston Globe (1872-1981)*, November 4, 1973.

highway speed limits at 50 mph. Additionally, the federal government would drive a dramatic expansion of nuclear power facilities, and dedicate lavish amounts of taxpayer dollars to finding alternative and renewable means of electricity generation—an ambitious tasked assigned to a new Energy Research and Development Agency. However, this did not mean that Project Independence was uniquely "green" in its outlook: the program also called for the increased use of coal-powered plants, doubled down on the quest for domestic hydrocarbons in new frontiers from the Arctic to the deeper seas of the continental shelf, and demanded the relaxation of environmental regulations—whether it be for Alaskan oil production, tanker traffic, open air coal mining, or air quality emission standards. Nixon thus successfully pressured Congress to finally authorize the construction of the Trans-Alaskan Pipeline—despite the protests of environmental activists. He also demanded an expansion of the federal bureaucracy to meet the nation's challenge with the creation of the Federal Energy Administration—the precursor to the Department of Energy—and enhanced presidential powers for allocating and rationing oil supplies.[73] And as the energy situation worsened, Nixon proceeded to enact even more intrusive and disruptive emergency measures, such as ordering the closure of gas stations from Saturday evening to Monday morning, hardening mandatory speed limits, capping indoors heating temperatures at 68 degrees Fahrenheit, and restricting outdoors ornamental lighting for the Holidays.[74] But these policies found detractors from all sides of the political spectrum: they were too polluting for environmentalists, too statist

[73] "Editorial Note," *FRUS*, Vol. XXXVI, Doc. 237; Richard Nixon, "Address to the Nation About Policies To Deal With the Energy Shortages," November 7, 1973, The American Presidency Project, UC Santa Barbara, https://www.presidency.ucsb.edu/documents/address-the-nation-about-policies-deal-with-the-energy-shortages; Richard Nixon, "Special Message to the Congress Proposing Emergency Energy Legislation," November 8, 1973, The American Presidency Project, UC Santa Barbara, https://www.presidency.ucsb.edu/documents/special-message-the-congress-proposing-emergency-energy-legislation.

[74] Richard Nixon, "Address to the Nation About National Energy Policy," November 25, 1973, The American Presidency Project, UC Santa Barbara, https://www.presidency.ucsb.edu/documents/address-the-nation-about-national-energy-policy.

for fiscal conservatives, and too deregulatory for New Deal Democrats. And internationally, Project Independence also aroused concerns that the United States was moving into a new isolationism.[75]

Top Saudi officials were visibly uncomfortable at imposing such levels of economic hardship upon their allies. Yamani even tentatively sought—and failed—to coordinate secret oil shipments to the U.S. military with the help of Jordanian officials. But despite these gestures, the Saudi government still blamed Nixon and Kissinger for having brought this crisis upon themselves. Yamani lamented how "the United States had failed to get the Saudi message given repeatedly over the last six months or a year regarding Saudi actions if the U.S. did not change its pro-Israeli policies." Against this background, a reversal of the embargo was unacceptable.[76] Instead, the oil weapon's success emboldened Faisal's resolve. Sadat had suggested lifting the embargo progressively with commensurate progress in Egyptian-Israeli disengagement, but Faisal objected: he would never recognize Zionist sovereignty over Jerusalem, and any gradual *quid-pro-quo* concessions would need the agreement of at least Syria and Kuwait. Against all odds, Faisal outdid Sadat in his embrace of the oil weapon. Even the Shah of Iran and the King of Morocco failed to convince him to soften the embargo.[77]

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[75] For an in-depth analysis on the U.S. national debates about Project Independence, and its impact on social movements as well as the Democratic and Republican Parties, see Meg Jacobs, *Panic at the Pump: The Energy Crisis and the Transformation of American Politics in the 1970s*, 1st edition. (New York: Hill and Wang, a division of Farrar, Straus and Giroux, 2016).

[76] "Memorandum From the President's Deputy Assistant for National Security Affairs (Scowcroft) to President Nixon," November 9, 1973, *FRUS*, Vol. XXXVI, Doc. 238; "Message From Saudi Minister of Petroleum Yamani to Secretary of State Kissinger," November 11, 1973, *FRUS*, Vol. XXXVI, Doc. 239.

[77] "Memorandum From the President's Deputy Assistant for National Security Affairs (Scowcroft) to President Nixon," Doc. 238; "Message From Saudi Minister of Petroleum Yamani to Secretary of State Kissinger"; "Memorandum of Conversation," November 17, 1973, *FRUS*, Vol. XXXVI, Doc. 241; "Memorandum of Conversation: Meeting with Oil Company Executives," November 20, 1973, *FRUS*, Vol. XXXVI, Doc. 243.

The Saudi monarch also grew angry at U.S. insinuations that, by waging an economic war on the West, he was benefitting Soviet Communism. Unlike Nixon and Kissinger, he refused to view the Arab-Israeli conflict as a Cold War proxy war between U.S.-allied Israel and Soviet-backed "radical" Arab states. In contrast, Faisal emphasized the intra-Arab dimensions of the Cold War, and especially the conflict between U.S.-allied conservative monarchies and "radical" Socialist-leaning regimes. Prior to 1973, this regional polarization had hampered Saudi Arabia's claim to Arab leadership beyond Jordan and the small oil-producing Gulf emirates. However, this all changed with the embargo: traditionally anti-Saudi and anti-American leaders such as Syria's Hafez al-Assad, Libya's Muammar Qaddafi, and Algeria's Houari Boumediene were suddenly following Faisal's lead, and his refusal to budge on lifting embargo before an Israeli withdrawal from the Golan Heights had garnered unprecedented levels of appreciation from Assad. Thus, Prince Fahd intimated that America's Cold War strategy would gain from the embargo in the long run: Saudi Arabia could weaken the Soviet presence in the Middle East, and eventually reshape the region according to Saudi-American designs. In fact, after Faisal's long rivalry with Nasser, Saudi Arabia was finally set to replace Egypt as the leader of the Arab world: if Faisal had stood behind Sadat during the three weeks of the Yom Kippur War, it was now Sadat's turn to back Faisal for as many months as the embargo lasted. And by refusing to accept Nixon and Sadat's demands to end the oil boycott, Faisal was overcoming perhaps the greatest obstacle in his quest for regional leadership: his apparent subservience to Washington.[78]

[78] "Message From Prince Fahd of Saudi Arabia to the President's Assistant for National Security Affairs (Kissinger)," Doc. 224; "Memorandum Prepared in the Central Intelligence Agency," October 25, 1973, *FRUS*, Vol. XXXVI, Doc. 228; "Memorandum of Conversation: Meeting with Oil Company Executives," Doc. 243; "Message From Prince Fahd of Saudi Arabia to the President's Assistant for National Security Affairs (Kissinger)," December 3, 1973, *FRUS*, Vol. XXXVI, Doc. 259.

But Faisal also believed that he could ultimately force the United States to adopt a more balanced approach to the Arab-Israeli conflict. By proving to American leaders that their true interest lay in the Arab world, and that their unconditional support for Israel amounted to an irrational disregard for the potential benefits of a closer Arab-American partnership, King Faisal sought to at least bring more nuance to America's policies on the Middle East.[79] However, this was not devoid of self-interest: as the champion of the cause of "Islamic Solidarity,"[80] Faisal had his own selfish designs on the city of Jerusalem. By contesting Israeli sovereignty over its Old City, Faisal was not only defending Palestinians' national project: he signaled his openness to internationalizing Jerusalem, which could potentially pave the way to granting him a special role as the custodian of Al-Aqsa Mosque in the Temple Mount—Islam's third holiest site after Saudi Arabia's Mecca and Medina. When negotiating potential conditions for lifting the boycott, he even asked Kissinger: "Can't you help me? Can't you give me Jerusalem?"[81]

And yet, the Nixon administration remained unmoved by the Saudi government's interpretations of the Middle East's Cold War geopolitics, as Secretary of Defense James Schlesinger was deeply bent on treating the Arab-Israeli conflict as a U.S.-Soviet proxy war. After all, when the Soviet navy threatened to intervene if Israel did not stop its ceasefire violations in late October, the United States and the Soviet Union had come dangerously close to a military showdown in the Eastern Mediterranean. Without Nixon or Kissinger's knowledge, Schlesinger had placed the U.S. navy on high alert. Soviet Ambassador Anatoly Dobrynin went as far as to describe this as the most dangerous moment in U.S.-Soviet relations since the Cuban Missile Crisis.

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[79] "Memorandum Prepared in the Central Intelligence Agency."

[80] For an overview of the modern idea of Pan-Islamism and King Faisal's role therein, see Cemil Aydin, *The Idea of the Muslim World: A Global Intellectual History* (Cambridge, Massachusetts: Harvard University Press, 2017).

[81] "Memorandum of Conversation," November 29, 1973, *FRUS*, Vol. XXXVI, Doc. 251.

It also did not help that Syria and Egypt were garnering generous support from across the Eastern Bloc—with arms, experts, and volunteers flowing in from as far as Cuba, North Vietnam, and North Korea.[82] Finally, the embargo was perilously undermining the U.S. military's ability to project power overseas—from the Mediterranean to Southeast Asia. Key strategic allies such as Singapore, Thailand, the Philippines, and Italy were refusing to resupply the U.S. navy for fear of Arab sanctions, and in ironic twist, the Gulf's Arab countries were rebuffing the same U.S. forces that were tasked with protecting them.[83]

Thus, throughout November, Schlesinger began advocating for the United States to move troops into the Persian Gulf, arguing that the U.S. should not refrain from using force to bring back oil production—and should never acquiesce to "Arab bullying." In disbelief, Kissinger exclaimed: "He is insane."[84] But Schlesinger insisted, and he continued pressing for a U.S. military intervention against Arab oil producers at a NATO meeting in November. Not without a tinge of racism, Schlesinger derided Europeans' acceptance of Arab blackmail, which only served to teach the Middle East's "underpopulated under-developed countries" that they could "whip" industrialized nations into submission. This certainly aroused the interest of Dutch Prime Minister Joop den Uyl, but it shocked British diplomats.[85] U.K. Ambassador Cromer reminded Schlesinger

[82] "Memorandum of Conversation," October 24, 1973, *FRUS*, Volume XXV, Arab-Israeli Crisis and War, 1973, Doc. 261; "Memorandum of Conversation," November 3, 1973, *FRUS*, Volume XXV, Arab-Israeli Crisis and War, 1973, Doc. 314; "Memorandum From Harold H. Saunders of the National Security Council Staff to the President's Deputy Assistant for National Security Affairs (Scowcroft)," December 7, 1973, *FRUS*, Volume XXV, Arab-Israeli Crisis and War, 1973, Doc. 376.

[83] "Memorandum of Conversation," Doc. 241; "Paper Prepared in the Office of the Director, Installations and Logistics, Department of Defense: 'Foreign Oil Denials,'" November 27, 1973, *FRUS*, Vol. XXXVI, Doc. 249; Yergin, *The Prize*, 581–88.

[84] "Editorial Note," *FRUS*, Vol. XXXVI, Doc. 244.

[85] "Editorial Note"; Embassy in The Hague to State Department, "Secretary Schlesinger's Visit to the Hague November 5-8 for the NPG Meeting," Telegram 04914, November 8, 1973, 1973THEHA04914, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration; Embassy in The Hague to State Department, "Secretary Schlesinger's Nov 7 Meeting with Prime Minister Den Uyl," Telegram 04939, November 9, 1973, 1973THEHA04939, Central Foreign

that they “were not living in the 19th century, when gunboats were in fashionable use.”[86] And yet, by the end of November, even Kissinger began to fantasize about moving in the marines, lamenting: “It is ridiculous that the civilized world is held up by 8 million savages.”[87] Kissinger and Schlesinger pondered bringing the massive aircraft carrier USS Oriskany into the Gulf, and building new military bases in Ethiopia, Pakistan and Bahrein to encircle the region. Kissinger even half-jokingly asked: “Can’t we overthrow one of the sheikhs just to show that we can do it?”[88] Thus, in utter disbelief, King Faisal ordered the mining of all the oil facilities in the Kingdom’s Eastern Province, at which point U.S.-Saudi relations reached the brink of collapse.[89]

America’s growing impatience and belligerence stood in stark contrast to Western Europe and Japan’s efforts at accommodating OAPEC. On November 6, the nine members of the European Community passed a resolution calling upon Israel to “end the territorial occupation which it has maintained” since the 1967 Arab-Israeli War. While this might have echoed the wording of U.N. Resolution 242, it adopted France’s more openly pro-Arab posture by actively condemning Israel’s “acquisition of territory by force.”[90] This placed Western Europe and the United States at odds with each other as it came to Middle East negotiations. French President Georges Pompidou’s Gaullist case for asserting Europe’s independence from the U.S. had thus momentarily prevailed—as did the Anglo-French attitude of buying time and short-term energy

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Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration.

[86] “Editorial Note,” Doc. 244.

[87] “Memorandum of Conversation,” Doc. 251.

[88] “Memorandum of Conversation,” November 29, 1973, *FRUS*, Vol. XXXVI, Doc. 253.

[89] “Notes From Peter Rousel of the Republican National Committee to George H. W. Bush, Chairman of the Republican National Committee,” November 27, 1973, *FRUS*, Vol. XXXVI, Doc. 250.

[90] “Europe Urges Israel Pullout,” *The Atlanta Constitution (1946-1984)*, November 7, 1973.

relief through pro-Arab statements.[91] And in his bid to position himself as the Western champion of the Arab cause, Pompidou even received Muammar Qaddafi in Paris, who allegedly asked him for arms. By the end of November, Kissinger's "Year of Europe" had become an object of ridicule: instead of cementing closer U.S.-European relations, the events of 1973 had drawn a deepening wedge between the allies, dashing U.S. hopes for crafting a new Atlantic Charter.[92]

The Japanese government also joined the European Community in abandoning its longstanding Middle Eastern neutrality in favor of an avowedly pro-Arab posture.[93] On November 21, Trade and Industry Minister Yasuhiro Nakasone took the stage of the Japanese Diet and called for Israel to withdraw to its pre-1967 borders and to respect the Palestinians' rights to self-determination. Urging closer relations with the Arab world, he also publicly asked Prime Minister Kakuei Tanaka to go on a good-will tour of the Middle East. On the next day, it was Foreign Minister Masayoshi Ohira's turn to demand Israel's complete withdrawal from the occupied Arab territories. Indeed, given the country's overwhelming dependence on Middle Eastern oil, the Japanese government hoped that a radical foreign policy shift could alleviate the nation's growing economic woes.[94] Israel thus grew increasingly betrayed and isolated on the international stage,

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[91] Takashi Oka, "Mideast Crisis Strengthens French Voice in Europe," *The Christian Science Monitor (1908-)*, November 16, 1973; Flora Lewis, "A Step Further From Unity," *New York Times*, November 18, 1973.

[92] The French government rejected both a program to expand Trans-Atlantic economic relations and a project to create a more integrated U.S.-European security partnership. See Philip Potter, "Analysis: 'Year of Europe' Is Bitter Failure," *The Sun (1837-)*, December 1, 1973; Joseph R. L. Sterne, "Alantic Rift Widens: The Year of Europe That Wasn't," *The Sun (1837-)*, November 16, 1973; Oka, "Mideast Crisis Strengthens French Voice in Europe"; State Department to Embassy in Paris, "Morning Summary of Significant Reports," Telegram 224578, November 14, 1973, 1973STATE224578, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration.

[93] It is worth mentioning that, despite Japan's pro-Arab turn in its foreign policy, its overall foreign policy outlook remained decidedly pro-American. See Erika Tominaga, "Japan's Middle East Policy, 1972-1974: Resources Diplomacy, Pro-American Policy, and New Left," *Diplomacy and Statecraft* 28, no. 4 (2017): 674–701, https://doi.org/10.1080/09592296.2017.1386461.

[94] Embassy in Paris to Department of State, "Japanese Concern about Petroleum Problem," Telegram 30193, November 23, 1973, 1973PARIS30193, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration; State Department to Embassy in Tokyo, "U.S. Policy Actions towards Japan on Oil," Telegram 240797, December 8, 1973,

drawing an increasingly desperate Golda Meir to remind her peers at the Socialist International that "Israel is a small country and needs her friends."[95] Transport Minister Shimon Peres took a more cynical view, deriding how "the day will come when Mr. Gadafy will dictate the policies of Western Europe and [Ugandan President] Idi Amin will provide the thinking for it."[96]

But Peres still held words of praise for Israel's one steadfast European ally: the Netherlands, which, "in spite of the winter and in spite of pressure, […] preferred the bicycle to surrender."[97] Indeed, if the European Community's resolution provided a comforting visual of continental unity, it belied profound internal fissures—which were most manifest in the Netherlands' ostracization. In line with the newly dominant French position on the Middle East crisis, the members of the European Common Market did not share oil supplies with each other—which otherwise could have led to a total embargo. Prominent conservative voices in the continent decried how, when facing the dilemma between securing Arab oil supplies or living up to their proclaimed ideals of solidarity, European leaders had made the most cowardly and unprincipled choice. Belgium's influential Catholic newspaper *La Libre Belgique* denounced that Europe had chosen to "avoid this embargo but compromise the entire European construction by applying towards one of its members the policy of 'each for himself.'" And it was all the more shameful that this was one of the European Community's first collective responses to a major international crisis.[98] Dutch Prime

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1973STATE240797, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration; "Arab Oil Cut Rocks Japan Economy."

[95] Alvin Shusters, "Mrs. Meir Bitter at Europe's Move: She Censures Mideast Stand at Meeting of Socialists," *The New York Times*, November 12, 1973; David Winder, "Winds of Isolation Chill Israel: Support Has Eroded in Africa and Europe: Credibility of Arabs on the Increase at UN," *The Christian Science Monitor (1908-)*, November 12, 1973.

[96] "Israel's One Friend in Europe," *The Guardian*, November 13, 1973.

[97] "Israel's One Friend in Europe."

[98] Embassy in Brussels to State Department, "Belgian Media Coverage of Mideast Crisis," Telegram 06371, November 8, 1973, 1973BRUSSE06371, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration.

Minister den Uyl thus confessed to Schlesinger that he could not take a separate stand on the European resolution, which "would have been suicide," but he remained profoundly disappointed that the other Common Market countries showed no desire whatsoever to help his country—they did not even express any sympathy for the Netherlands' troubles.[99]

In the long run, however, the European Community and Japan's pro-Arab pronouncements paid off. On November 28, an Arab League Summit in Algiers exempted Japan and the European Common Market—except the Netherlands—from the December 5% monthly production cutback. Yamani also promised West Germany and Belgium to make up for their lost Dutch-mediated oil shipments: Saudi Arabia would increase supplies to the ports of Hamburg and Antwerp—and could potentially allow some oil to transit through Rotterdam. The Arab League also rewarded the Philippines for having refused to resupply the U.S. navy, and in a show of Afro-Arab and Islamic solidarities, it also announced that African and Muslim countries would receive their oil supplies at pre-war levels—if they did not re-export any oil to the embargoed countries. Thus, having witnessed the unprecedented success of their oil weapon, Arab states sought to minimize its collateral damage. But this also allowed for a more targeted deployment of their sanctions: the Arab League's Algiers Summit extended the embargo to new countries it deemed hostile, namely Portugal, South Africa, and Rhodesia. The Arab world showcased the heavy costs of being too close to the United States or Israel—wreaking more havoc upon America's alliances.[100]

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[99] Embassy in The Hague to State Department, "Secretary Schlesinger's November 7 Meeting with Prime Minister Den Uyl," Telegram 04806, November 12, 1973, 1973THEHA04806, Central Foreign Policy Files, 1973-79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration.

[100] "Memorandum From Jan Lodal and Helmut Sonnenfeldt of the National Security Council Staff to Secretary of State Kissinger"; "National Intelligence Estimate NIE 1–1–73: 'The World Oil Crisis: Economic and Political Ramifications for Producers and Consumers'"; "Message From Prince Fahd of Saudi Arabia to the President's Assistant for National Security Affairs (Kissinger)," December 12, 1973, *FRUS*, Vol. XXXVI, Doc. 265; "Paper Prepared by William B. Quandt of the National Security Council Staff," December 14, 1973, *FRUS*, Vol. XXXVI, Doc. 266; "Washington Post_Arabs Threaten New Cuts," *The Washington Post (1877-1997)*, November 27, 1973;

OAPEC thus tightened the noose around the United States and the Netherlands, while also moving its aim upon Canada—which struggled to retain its neutrality. After witnessing a 30% drop in its national oil supplies, the Netherlands finally bent under pressure: its Foreign Office condemned Israel's occupation of Arab territories as "illegal," and Foreign Minister Max van der Stoel expressed some support for "the political aspirations of the Palestinians."[101] But to America's surprise, Canada also carried out an unexpected U-turn in its foreign policy: after OAPEC denied his request to allow Arab oil shipments to Quebec through the Portland refinery, Prime Minister Pierre Elliott Trudeau chose to stand by his North American allies against the Arab oil producers' divisive tactics. Despite the initial frictions—and the diversion of part of Alberta's oil exports from the U.S. to Eastern Canada—Trudeau publicly pledged that he would not change his country's relationship to the U.S. under Arab pressure. Canada's friendship with the United States was, in this sense, "non-negotiable," and Alberta would continue to do its best to fulfill U.S. energy requirements. To be sure, the neighbors would not formulate a joint Continental Oil Policy, but as Trudeau wrote to Nixon, he still hoped that "the good will, good sense, and self-discipline of Canadians and Americans [would] combine to minimize the effects of these shortages and that, together, we shall overcome this grave threat to many of our communities."[102]

"Tokyo, Manila Oil Curbs Eased," *The Chicago Tribune*, November 28, 1973; "Oil-Policy Results Please Arabs," *The Hartford Courant*, December 9, 1973.

[101] "Dutch See Israel in 'Illegal' Stand: Use Term for First Time in Urging Withdrawal," *New York Times*, 1973.

[102] Embassy in Kuwait to State Department, "Canadian and Dutch Clarify Their ME Positions to Gulf States," Telegram 04039, November 14, 1973, 1973KUWAIT04039, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration; Embassy in Ottawa to State Department, "Canadian-United States Energy Relations," Telegram 02729, November 16, 1973, 1973OTTAWA02729, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration; State Department to Embassy in Ottawa, "Presidential Response to Trudeau Message on Petroleum," Telegram 224842, November 14, 1973, 1973STATE224842, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration.

By that time, Canada's decision to stand by the United States had become the exception—not the rule. Lamenting the levels of acrimony that had creeped into Trans-Atlantic relations, Kissinger changed course: instead of having each country seek its own path towards energy self-sufficiency—as Project Independence vowed to do—the United States, Western Europe and Japan could seize this global crisis as an opportunity to rebuild trust and cooperation. On December 12, in a notable address at the Pilgrims Society in London, he rhetorically asked: "Can our common energy crisis be solved by anything but collective action?" As the oil shock clearly knew no national boundaries, the implied answer was a resounding "No!" Kissinger still saw the energy crisis as a structural problem of market imbalances that had been long in the making, "the inevitable consequence of the explosive growth of worldwide demand outrunning the incentives of supply." In this sense, the Arab oil weapon had only "made a chronic crisis acute." But global problems begged for global collaborative solutions: only the United States, as a resource-rich superpower, could come up with an effective national response to its energy crisis—albeit "with great difficulty." Europe, however, could not—so it was futile for any single European country to try to do otherwise. Kissinger thus proposed the creation of an "Energy Action Group" bringing together North America, Europe, and Japan to reverse the adverse trends of supply and demand. His program echoed Project Independence—conservation, finding alternative resources, energy research—but with a transnational twist: by banding together, all would gain. As has been noted by historian Daniel Sargent, this moment marked a shift in Kissinger's thinking on the Energy Crisis: from an initial narrow focus on Arab-Israeli diplomacy and Cold War machinations that alienated its allies, to creating cooperative frameworks with Western Europe and Japan for the joint management of the world's growing economic interdependence.[103]

But this change of gears also reflected Kissinger's growing optimism that the embargo could soon be lifted. After all, the U.S. had done more than any other country to resolve the Arab-Israeli war: it had co-sponsored a ceasefire with the USSR at the U.N. Security Council in October and saved the Egyptian Third Army. After Egypt and Israel threatened to resume hostilities, Kissinger had facilitated a Six-Point Agreement in November to stabilize the ceasefire. In the meantime, the U.S. had made its most serious pronouncements to date in favor of U.N. Resolution 242 and had publicly supported Israel's withdrawal from the territories. And perhaps most importantly, after weeks of "shuttle diplomacy" between Jerusalem, Cairo, Damascus and Riyadh, Kissinger was organizing a Peace Conference in Geneva—which could provide the ideal setting for Saudi Arabia to lift the embargo. Nixon thus wrote to Faisal that the American public's patience was wearing thing: how could he explain to his people that mere symbolic statements by European countries and Japan had been rewarded, but forceful U.S. efforts at Middle Eastern diplomacy had meant nothing? Nixon thus challenged the monarch: if Faisal truly wanted to give negotiations a chance, he had to lift the embargo on the eve of the Geneva Peace Conference.[104]

Kissinger also traveled to Riyadh to make his case in person to Saudi Arabia's top leadership: King Faisal, Oil Minister Yamani, Prince Fahd, and Foreign Minister Omar Saqqaf. He expressed heartfelt regret at not having prioritized the Arab-Israeli conflict despite all their warnings and conceded that the Arabs had proven their point: they had shown to the world that

[103] "Text of Address by Kissinger in London on Energy and European Problems," *The New York Times*, 1973; "Editorial Note," *FRUS*, Vol. XXXVI, Doc. 264; Sargent, *A Superpower Transformed*, kindle locations 3605–20.

[104] "Letter From President Nixon to King Faisal of Saudi Arabia," December 3, 1973, *FRUS*, Vol. XXXVI, Doc. 258; "Message From Prince Fahd of Saudi Arabia to the President's Assistant for National Security Affairs (Kissinger)," Doc. 259; "Message From Prince Fahd of Saudi Arabia to the President's Assistant for National Security Affairs (Kissinger)," December 4, 1973, *FRUS*, Vol. XXXVI, Doc. 260.

they could effectively deploy the oil weapon and had bent the will of the West like never before. He had come to accept the new reality of Arab oil power: "The need for energy in the world will continue to increase and therefore you will never be without weapons."[105] To his frustration, however, his counterparts demanded a resolution not just of the October War, but of the Arab-Israeli conflict as a whole: from the self-determination of the Palestinians to the status of Jerusalem, from the delimitation of secure borders to the end of the occupation of the Sinai, the Golan Heights, Gaza, and the West Bank. Kissinger retorted that resolving all these issues would be impossible in such a short time frame: instead, he feared the embargo would be extended into January and February, turning U.S. public opinion against the Arabs. But Yamani reminded him that: "we have public opinion also, and our public opinion is more important to us than your public opinion." Without a meaningful, impressive breakthrough, the embargo would stay in place. As Faisal himself told Kissinger in plain English, "it takes two to tango."[106]

The Arab-Israeli Peace Conference thus convened on December 21 in Geneva under the auspices of the U.N. Secretary General, the United States, and the Soviet Union, but from the start, it rested upon shaky grounds. While Egypt, Jordan and Israel attended, Syria left an empty seat. Meanwhile, Golda Meir and her Defense Minister Moshe Dayan had resigned under heavy fire for their lack of war preparation. Amid intense electioneering, Meir was uncompromising—asserting that Israel would never withdraw from the Golan Heights and refusing to even discuss the question of Jerusalem. And to make matters worse, there was no guarantee that Meir's successor would abide by any agreement—which could make the face-to-face negotiations pointless or premature. By then, even Faisal had softened his terms: the mere announcement of an Arab-Israeli military

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[105] "Memorandum of Conversation: Meeting with Saudi and Algerian Oil Ministers," December 5, 1973, *FRUS*, Vol. XXXVI, Doc. 263.

[106] "Memorandum of Conversation," December 14, 1973, *FRUS*, Vol. XXXVI, Doc. 267.

disengagement could suffice to lift the embargo. But alas, frustrated at an unproductive Geneva Conference, Kissinger's optimism gave way to disappointment.[107]

The Nixon administration might have hoped for the 1973 holiday season to bring peace to the Middle East and the end of the embargo. Instead, what came was an even more profound economic shock. As the Geneva Conference was getting started, OPEC's Persian Gulf ministers were headed to Tehran for a groundbreaking summit of their own. The U.S. Embassy in Iran gathered alarming rumors that the Shah was planning an unprecedented oil price hike—from $5.13 a barrel to a much higher figure somewhere between $8 and $14. This was surprising: the Shah had historically advocated for lower oil prices as a tool for curbing inflation in the United States and Western Europe, from which he imported manufactured goods. In 1972, for instance, rising commodity prices in the U.S. had caused runaway inflation in Iran. But the October War seemed to have changed the Shah's thinking: the Arab oil weapon's supply shock justified a dramatic price increase. Thus, after having overturned the 1971 Tehran Agreements in October, the Shah wanted to settle the question of oil prices for good—devising a new formula instead of cyclically clashing with the companies over prices. For instance, the price of crude could be fixed in relation to its more expensive substitutes.[108] Meanwhile, market signals also pointed in the direction of a major price hike: in a December 1973 auction, Iran had managed to sell crude for as much as $16 and

[107] "Memorandum From the President's Deputy Assistant for National Security Affairs (Scowcroft) to President Nixon," December 18, 1973., *FRUS*, Volume XXV, Arab-Israeli Crisis and War, 1973, Doc. 407; "Report by Secretary of State Kissinger to President Nixon," undated, *FRUS*, Volume XXV, Arab-Israeli Crisis and War, 1973, Doc. 415; "Telegram From the Embassy in Saudi Arabia to the Department of State," December 26, 1973, *FRUS*, Vol. XXXVI, Doc. 272; "Telegram From the Embassy in Saudi Arabia to the Department of State," December 30, 1973, *FRUS*, Vol. XXXVI, Doc. 276.

[108] Embassy in Tehran to Department of State, "Pricing Policies at OPEC Meeting," Telegram 09001, December 21, 1973, 1973TEHRAN09001, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration; "Telegram From the Embassy in Iran to the Department of State," December 26, 1973, *FRUS*, Vol. XXXVI, Doc. 271.

$17 a barrel—over four times the pre-war average of $3.64.[109] Thus, on December 23, Iranian Oil Minister Jamshid Amouzegar announced a new posted price of $11.60 per barrel for Arabian light crude—doubling prices and increasing profits for Persian Gulf oil producers to $7 per barrel.[110] The Shah was well aware of the damage that he was unleashing upon the global economy, claiming that: "the industrial world will have to realize that the era of their terrific progress and even more terrific income based on cheap oil is finished."[111] Adding fuel to the fire, the Kuwaiti government warned that this price hike was just temporary: the world could expect another one within 3 months.[112]

Thus, in the span of three months, OPEC had effectively quadrupled global oil prices—adding a price shock on top of the still-ongoing supply shock. And if tight oil supplies justified higher prices, then the price hike came at the most ironic time: on the eve of OAPEC's decision to increase production by 10%. Meeting in Kuwait, Arab oil producers resolved to fulfill the needs of Belgium, Britain, France, Japan, Spain, and the Philippines—but to provide no reprieve for the United States or the Netherlands. Saudi Arabia even added Canada to the embargo, as punishment for Trudeau's vows to stand by the U.S. Again, the North American neighbors wasted no time before bickering over their emergency supplies, showing how fragile their "non-negotiable" bond

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[109] "Price Quadruples for Iranian Crude Oil at Auction," *The New York Times (1923-Current File)*, December 12, 1973.

[110] Embassy in Tehran to Department of State, "Oil Prices Up More than 100 Percent," Telegram 09031, December 23, 1973, 1973TEHRAN09031, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration.

[111] Quotes in Sargent, *A Superpower Transformed*, kindle location 3504.

[112] "Oil Rise Likely Again in Spring, Kuwaiti Says," *The Globe and Mail (1936-)*, December 25, 1973.

truly was.[113] U.S. Ambassador to Saudi Arabia James Akins put it succinctly: "Tehran was a catastrophe and Kuwait was an insult."[114]

Kissinger's strategy towards the Middle East thus fell in disarray: at a moment of weakness, both Shah Pahlavi and King Faisal had betrayed the United States. In Tehran, U.S. diplomats lambasted the Shah, thanks to whom, "without exaggeration […] the non-Communist world [was] in a fair way to being shaken to its economic foundations." Panic grew as U.S. diplomats deemed Tehran's "drastic and unjustifiable price increases" to represent "the most important economic challenge faced by the industrialized world since World War II."[115] But Nixon also found King Faisal's behavior to be appalling, and he demanded that the "discrimination against the United States, which the oil embargo represents, […] be brought to an end."[116] In his impotence, and running out of words to express his "disappointment and dismay," Kissinger even threatened to derail the Middle East peace negotiations.[117] Faisal, however, would not be intimidated—given Israel's intransigence, he may have wondered if Kissinger knew that the negotiations would fail, and was trying to trick him into lifting the embargo. This, he would not accept.[118] Thus, the year 1973 ended with the U.S. leadership on its knees: backstabbed by Saudi Arabia and Iran, frustrated

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[113] "Oil Ban Eased for Japan, Europe--Not US, Holland," *The Boston Globe (1872-1981)*, December 26, 1973; "Maritimes Oil Outlook Worsens Following Embargo Confirmation," *The Globe and Mail (1936-)*, December 21, 1973; "Arabs to Reopen Oil Taps To Japan, Most of Europe," *The Atlanta Constitution (1946-1984)*, December 26, 1973; "Arabs Decide to Ease Their Cutbacks on Oil Output," *The Wall Street Journal (1923-Current File)*, December 26, 1973; "Skirmishing With a Friend: Oil Crisis Aggravates Canada-U.S. Relations," *The New York Times (1923-Current File)*, December 31, 1973.

[114] Embassy in Jeddah to State Department, "Saudi Comments on Tehran and Kuwait Conferences," Telegram 05703, December 26, 1973, 1973JIDDA05703, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration.

[115] "Telegram From the Embassy in Iran to the Department of State."

[116] "Letter From President Nixon to King Faisal of Saudi Arabia," December 28, 1973, *FRUS*, Vol. XXXVI, Doc. 274.

[117] "Telegram From the Department of State to the Embassy in Saudi Arabia," December 28, 1973, *FRUS*, Vol. XXXVI, Doc. 273.

[118] "Telegram From the Embassy in Saudi Arabia to the Department of State," Doc. 276.

at Israel, and abandoned by the European Community and Japan. The Arab oil weapon had dealt a heavy blow to America's entire alliance system—leaving the White House and the State Department in utter disarray.

III. The Other Oil Revolution: Afro-Arab Solidarity and the Oil Embargo on Southern Africa

The Arab oil weapon did not just breed disunity across the West; it also breathed new life to South-South anticolonial solidarities. In contrast to the West's intra-alliance bickering, the Arab League and the Organization of African Unity built a new and highly consequential transregional alliance. Drawing parallels between the plight of the Palestinians and the oppression of blacks in Southern Africa, Arab petrostates expanded their purview beyond the Middle Eastern conflict by deploying an oil embargo against the Portuguese colonial empire in Angola and Mozambique, white-minority-ruled Rhodesia, and the apartheid regime in South Africa. Under the leadership of Algerian President Houari Boumediene, this drive for Afro-Arab solidarity pushed Israel into a growing international isolation, destabilized the remnants of colonialism and white supremacy in the African continent, and unleashed new petrodollars flows from the Arab world to Sub-Saharan Africa. This helped solidify the Global South's categorical support for the Arab camp and OPEC during the First Oil Shock.

Since the early 1960s, the Jewish state had cultivated amiable relations with most decolonizing Sub-Saharan African countries: it was outspoken against Apartheid at the United Nations, condemned European colonialism, provided substantial agricultural and development aid to the region, and actively supported Angola's pro-independence guerrillas. However, the Jewish State's public image began to suffer after the 1967 Six-Day War. If Israel had previously portrayed itself as an underdog—a small and lonely David facing off against an aggressive Arab Goliath bent on its annihilation—its resounding victory over the combined forces of Egypt, Syria and Jordan cast doubts on this narrative. Instead, its rapid conquest and occupation of the Sinai, the Golan Heights, and the West Bank—remembered in Arabic as the *Naksa* or "setback"—provided ammunition for Arab states to spread their own counter-narrative of victimhood: they accused Israel of being a belligerent and expansionist foreign entity that sought to conquer its neighbors while denying the Palestinian people's legitimate rights to national self-determination.[119] At the turn of the 1970s, North African Arab states like Algeria, Egypt and Libya lobbied the Organization of African Unity (OAU)—today known as the African Union—to lend its support to the Arab cause. Mobilizing the OAU's anti-imperialist and anti-racist language, they condemned Israel as a colonialist and segregationist state, drawing parallels between the Palestinian Liberation Organization and South Africa's anti-apartheid African National Congress (ANC) as quintessential representatives of the oppressed peoples of the Third World.[120]

In the early 1970s, however, the OAU remained a young, fragile, and deeply divided organization. While its founding principles sought to achieve the national self-determination of all

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[119] The Arabic word "naksa" (نكسة) or "setback," which refers to the Arab defeat in the 1967 Arab-Israeli Six-Day War, rhymes with that of the 1948 "nakba" (نكبة) or "catastrophe," which marks the displacement of Palestinians after the 1948 Arab-Israeli War (known in Israel as the War of Independence). This builds a linguistic parallel and continuity between events of 1948 and 1967, as two parts of a same cycle of Arab loss. The naksa thus added a new layer to pre-existing Arab narratives of victimhood, especially among Egyptians and Palestinians, ranging from Nasser's humiliating wartime defeat, to the Palestinians' loss of the old city of Jerusalem, displacement from the West Bank, or life under Israeli occupation. Meanwhile, Israel's 1967 victory also marked a "loss of innocence" for the Jewish State. While Israel celebrated the unification of the Promised Land as "Greater" or "Complete Israel" or "Eretz Yisrael Ha-Shlema" (ארץ ישראל השלמה), this also marked the loss of a more innocent period, remembered in popular culture as that of "Small Israel" or "Eretz Yisrael Ha-Qatana" (ארץ ישראל הקטנה). For more on the Israeli and Arab memory of the events of 1967 and the Arab narratives of loss built upon the naksa, see Mazin B Qumsiyeh, "From Nakba to Naksa, 1948–67," in *Popular Resistance in Palestine* (Pluto Press, 2015); Hagar Salamon, Regina F. Bendix, and Aziz Haidar, *June 1967 in Personal Stories of Palestinians and Israelis* (Universitätsverlag Göttingen, 2022); Muḥammad Ḥasanayn Haykal, *1967 al-infijār: ḥarb al-thalāthīn sanah / ١٩٦٧ الانفجار: حرب الثلاثين سنة [The Explosion of 1967: The Thirty-Year War]* (al-Qāhirah [Cairo]: Markaz al-Ahrām lil-Tarjamah wa-al-Nashr, 1990).

[120] José Freire Antunes, *Os Americanos e Portugal: v. 1, Os anos de Richard Nixon (1969-1974)* (Lisbon: Dom Quixote, 1986), 264–76.

of Africa's colonized and subjugated groups—most notably the black populations in the Portuguese colonies of Angola and Mozambique, apartheid South Africa, and white-minority-ruled Rhodesia—bringing these ideals into practice severely tested the organization's cohesion. On top of the Cold War-era polarization between U.S.- and Soviet-aligned states, the OAU could not agree on whether to accept or reject the apartheid regime's offers of regional dialogue, aid, and trade, or whether to recognize coup governments such as that of Idi Amin in Uganda.[121] Because of this, the OAU had traditionally remained uninvolved in any extra-regional conflicts that might exacerbate its already bitter internal rifts. By 1971, however, it could no longer ignore that one of its members—Egypt—was seeing its territorial integrity violated by Israel's occupation of the Sinai. Hence, in June 1971, an OAU summit in Addis Ababa declared that the Middle Eastern conflict posed a "serious threat to the regional peace of Africa"—thus beginning the organization's entanglement in the Arab-Israeli problem.[122]

And yet, the OAU officially retained a neutral posture vis-à-vis Israel and the Arab world. After all, Israel certainly had strong supporters in Sub-Saharan Africa. For instance, Ethiopia—whose capital served as the OAU's headquarters—was a large recipient of Israeli military and economic aid, and Emperor Haile Selassie relied on Israeli technical assistance in his campaign against the Eritrean Liberation Front—an Arab-backed Muslim-led secessionist movement. Meanwhile, throughout the 1960s, the Israeli government had also aided the National Front for the Liberation in Angola (FNLA)—which the OAU traditionally recognized as Angola's main freedom movement—in its armed struggle against Portuguese colonialism. Even Zaire's president

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[121] "Can the O.A.U. Survive?," *The New York Times*, June 18, 1971, sec. Archives, https://www.nytimes.com/1971/06/18/archives/can-the-oau-survive.html.

[122] Ran Kochan, "An African Peace Mission in the Middle East: The One-Man Initiative of President Senghor," *African Affairs* 72, no. 287 (1973): 186–96.

Sese Seko Mobutu had received training at the hands of Israeli officers. Thus, the OAU opted to position itself as a potential mediator between Israel and the Arab World: in February 1972, Senegalese President Leopold Senghor led a 10-nation OAU peace mission to the Middle East—which, while admonishing Israel's inflexibility in peace negotiations, did not refrain from criticizing Egypt.[123]

By March 1972, however, the winds began to blow against Israel. After King Faisal embarked on a tour of five Muslim-majority African countries, Ugandan President Idi Amin became the first African head of state to break diplomatic relations with Israel in the name of Islamic solidarity. Then, in an OAU Summit in Rabat in June 1973, Moroccan King Hassan II helped usher the most pro-Arab resolution to date: it not only supported Egypt's "legitimate struggle to recover totally and by every means its territorial integrity," but it also called for an African arms embargo against the Jewish state, demanding that all OAU members "refrain from supplying Israel with any weapons, military equipment or moral support likely to enable it to strengthen its military potential and to perpetuate its occupation of Arab and African territories." This, in turn, accompanied growing African support for pro-Arab positions in the United Nations General Assembly. For instance, while only 57 countries had voted in favor a mildly pro-Arab resolution in 1970, African votes helped push this number to 86 in 1972—and for a much harsher

[123] Benjamin Beit-Hallahmi, *The Israeli Connection: Whom Israel Arms and Why* (London: I.B. Tauris, 1988), 65; Kochan, "An African Peace Mission in the Middle East," 186; "Contacts with Senghor to Continue Despite His Criticism of Israel," *Jewish Telegraphic Agency Daily Bulletin*, February 14, 1972, Jewish Telegraphic Agency Historical Archive, https://www.jta.org/archive/contacts-with-senghor-to-continue-despite-his-criticism-of-israel; "Senghor Critical of Egypt," *Jewish Telegraphic Agency Daily Bulletin*, January 20, 1972, Jewish Telegraphic Agency Historical Archive, https://www.jta.org/archive/senghor-critical-of-egypt; "Ethiopia Wields Heaviest Blow as War Loosens Israel's Africa Ties," *Los Angeles Times (1886-1989)*, November 18, 1973.

resolution urging sanctions against Israel. Sub-Saharan African countries where thus gradually switching allegiances from Israel to the Arab world. [124]

On the eve of the October War, an Afro-Arab U.N. voting bloc had begun to form against Israel, coating itself under the guise of Third World anti-imperialist solidarity. This became even more manifest in the September 1973 Non-Aligned Conference in Algiers, which reserved the same language for Israel that it used to condemn Portugal's colonialism, South Africa's segregation, and Rhodesia's illegality. Presiding over this meeting, Algerian President Houari Boumedienne drew clear rhetorical parallels between the question of Palestine and black oppression in Southern Africa, claiming that "the struggle of the Palestinian people to recover their usurped homeland [is] an integral part of the struggle of all peoples against colonialism and racial discrimination and for self-determination." Boumediene thus alleged that Israel was an active participant in Southern Africa's white regimes' racist and colonialist alliance—the fourth leg of an infamous Pretoria-Salisbury-Lisbon axis.[125]

This rhetoric was far from coincidental. In the early 1970s, the eradication of the colonial and racist regimes in Southern Africa was the rallying cause—or even the *raison d'être*—of the

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[124] Assembly of Heads of State and Government of the Organization of African Unity, "AHG/Res. 67 (IX): Resolution on the Continued Aggression against the Arab Republic of Egypt," June 12–15, 1972, Online Documentation, African Union, https://www.peaceau.org/uploads/ahg-res-67-ix-en.pdf; Organization of African Unity, "CM/Res.266 (XIX); CM/Res.289 (XIX) & CM/St.7 (XIX): Resolutions and Statement of the Nineteenth Ordinary Session of the Council of Ministers Held in Rabat, Morocco, from 5 to 12 June 1972," June 5–12, 1972, Online Documentation, African Union, https://au.int/sites/default/files/decisions/9581-council_en_5_12_june_1972_council_ministers_nineteenth_ordinary_session.pdf; Organization of African Unity, "AHG/Res. 69 (X) & AHG/Res. 71 (X): Resolutions Adopted by the Assembly of Heads of State and Government in Its Tenth Ordinary Session in Addis Ababa," May 27–28, 1973, Online Documentation, African Union, https://au.int/sites/default/files/decisions/9521-assembly_en_27_28_may_1973_assembly_heads_state_government_tenth_ordinary_session.pdf; Kochan, "An African Peace Mission in the Middle East"; "Israel & Africa," *The Times of India (1861-2010)*, November 7, 1973; Winder, "Winds of Isolation Chill Israel"; "Ethiopia Wields Heaviest Blow as War Loosens Israel's Africa Ties."

[125] Conference of Non-Aligned Countries, "Political Declaration of the 4th Summit Conference of Heads of State or Government of the Non-Aligned Movement in Algiers," September 5–9, 1973, Non-Aligned Movement (NAM) Disarmament Database, Middlebury Institute of International Studies at Monterey, http://cns.miis.edu/nam/documents/Official_Document/4th_Summit_FD_Algiers_Declaration_1973_Whole.pdf.

Organization of African Unity. For the OAU, the white regimes in South Africa, Rhodesia and Portuguese Africa stood out as aberrations that ran against what appeared to be the continent's inevitable march towards national liberation and self-determination. Since 1948, Pretoria had enforced apartheid policies of racial segregation that evicted millions of blacks into "tribal homelands" or *Bantustans*, disenfranchising them and stripping them of their South African citizenship, all while imprisoning political opponents like Nelson Mandela and maintaining a colonial domination over Namibia.[126] Meanwhile, in 1965, the colonial government of Southern Rhodesia rebelled against Britain's demand of black majority rule as a precondition for independence. Prime Minister Ian Smith's Unilateral Declaration of Independence kept the Rhodesian white minority in power, albeit in an isolated and unrecognized state—punished by U.N. trade embargoes abroad, and under siege at home from black liberation guerillas in the so-called Bush War. Finally, Antonio Salazar's five-decades-old conservative dictatorship in Portugal—known as the *Estado Novo*—had resisted the tide of African independence by clinging to its colonies of Angola, Mozambique, Guinea-Bissau, Cape Verde, and São Tomé e Príncipe, which together counted about a million white Portuguese settlers. But this came at a high cost: in the early 1970s, Lisbon was entrenched in a protracted colonial war against pro-independence armed groups in Angola, Mozambique, and Guinea-Bissau.[127]

Boumediene was thus right about the existence of a Lisbon-Salisbury-Pretoria axis, as Southern Africa was rife with cross-border cooperation—both between the white-minority regimes,

[126] As the former German Colony of South-West Africa, Namibia was assigned to South Africa as a League of Nations Mandate after the First World War. Instead of preparing it for self-government, however, South Africa maintained it under a colonial relationship.

[127] For overviews of decolonization in Southern African and the persistence of white-minority regimes in the region, see Thula Simpson, *History of South Africa: From 1902 to the Present* (Cape Town, South Africa: Penguin Books, 2021); Eddie Michel, *The White House and White Africa: Presidential Policy Toward Rhodesia During the UDI Era, 1965–1979* (Milton: Routledge, 2019); José Freire Antunes, *A guerra de Africa (1961-1974)* (Lisboa]: Temas e Debates, 1996).

and their black opponents. Since the 1960s, the region's leading national liberation movements had embraced Marxism and revolutionary armed struggles—giving them an additional layer of ideological affinity and shared patronage from the Communist bloc. Thus, the Zimbabwe African People's Revolutionary Army (ZAPRA) and the African National Congress carried out joint guerilla operations in Rhodesia and South Africa. Along similar lines, the Zimbabwe African National Union (ZANU) and the *Frente de Libertação de Moçambique* (FRELIMO) also shared bases of operation in Zambia, from where they launched joint incursions into Rhodesia and Mozambique. In response, the Portuguese, Rhodesian, and South African secret services met in Salisbury in 1971 to establish a clandestine alliance, the Tripartite Consultative Committee, to coordinate joint military operations and share intelligence. The Rhodesian and Portuguese militaries thus cracked down on pro-ANC activities in their territories, and they also carried out combined attacks on rebel bases in Zambia. And given Rhodesia's dependence on Mozambique for sea access, its armed forces waged their own war against FRELIMO—establishing a secret permanent presence in the strategic Mozambican city of Tete. By 1973, Rhodesia and Portugal had imprisoned catholic missionaries for documenting their atrocities against black villagers, and they cracked down on journalists who dared to expose their clandestine cooperation. But nothing could hide the growing evidence of collusion between Lisbon, Salisbury, and Pretoria.[128]

Nonetheless, until 1973, the State of Israel had remained supportive of black Africans' struggles against colonialism and racial discrimination—and its leaders could present ample evidence to disprove Boumediene's claims of an alleged Israeli connection with Southern Africa's racist and colonialist triple alliance. For instance, the Jewish State's socialist government

[128] José Freire Antunes, "Rodésia e Moçambique: Marcos de uma Aliança," in *A guerra de Africa (1961-1974)* (Lisboa: Temas e Debates, 1996), 605–10.

maintained no diplomatic relations with Portugal. Since its early days, the Zionist Labor movement—which had held on to power since 1948—supported the independentist aspirations of the Portuguese colonies, which had led the influential Israeli General Federation of Labor—or *Histadrut*—to stand firmly against diplomatic relations with Lisbon. As early as 1962, *Histadrut* General Secretary Becker wrote to Mozambique's FRELIMO rebels, expressing on behalf of Israeli workers: "We are confident that through your devoted efforts the day of liberation for your land will come soon."[129] On the flipside, Portugal was overwhelmingly dependent on Arab oil, which compelled Salazar to refrain from pursuing diplomatic relations with Israel. The Jewish State also kept a neutral stance towards South Africa: it maintained diplomatic and trade relations with Pretoria but supported anti-apartheid resolutions in the United Nations. Hence, in 1973, Arab claims of an Israeli collusion with the Southern African regimes were tenuous at best—which allowed the OAU's mounting condemnations of the Jewish State to coexist with most African countries' diplomatic recognition and trade with Israel.[130]

With the onset of the October War, however, Algeria, Egypt, Libya, and Sudan demanded more than the OAU's rhetorical support for the Arab belligerents and the Palestinian people. Instead, they pushed their peers to sever all diplomatic ties with Israel—effectively forcing them to choose between the two warring camps. In the early days of the war, a contingent of smaller states like Rwanda, Dahomey, and Equatorial Guinea led the way in breaking with Tel Aviv. However, when Israel turned on the offensive and threatened to cross the Suez Canal into African soil, pressure grew for the region's powerhouses to live up to their pledges of Afro-Arab solidarity. When, for instance, Emperor Selassie still showed reticence to break relations with Israel, Qaddafi

[129] Jacob Abadi, "Constraints and Adjustments in Portugal's Policy toward Israel," *Middle Eastern Studies* 40, no. 5 (2004): 86.

[130] Abadi, 83–90.

called for the OAU to punish Ethiopia by moving its headquarters out of Addis Ababa. By late November, an initial trickle had given way to a full-fledged waterfall: a total of 29 countries—including regional leaders like Ghana, Kenya, Nigeria, Senegal, and Tanzania—had joined the list of African countries that had turned their backs on the Jewish state. Uganda and Chad even vowed to send troops to the Arab frontlines, with Idi Amin swearing that he would go to the Syrian front in person. In the end, even Israel's closest allies in the region, such as Ethiopia, Liberia, and Zaire, followed suit: despite his personal debt to the IDF, Mobutu confessed that he had no choice but to "carry out the duties of African cooperation."[131]

Thus, in a matter of weeks, Israel's long-held favorable position in Africa collapsed—and with it, its strategically-cultivated "political shield" against Arab-sponsored sanctions in the United Nations General Assembly. After all, for decades, Israel had deployed development aid programs as tools of soft power to secure African diplomatic support in international forums—and most notably, favorable U.N. votes. Hence, in November 1973, Israel was not only abandoned—or, from its perspective, betrayed—by the European Community and Japan, but also by most of Africa. Only a handful of OAU members such as Botswana, Swaziland, Lesotho, and Malawi kept their ties with Israel—which did little to assuage Tel Aviv's precipitous international isolation. Witnessing this unprecedented diplomatic defeat, OAU Secretary General Nzo Ekangaki noted that "after what occurred the only true friend Israel has in Africa is the Republic of South Africa," drawing again rhetorical connections between Israel and the apartheid regime.[132]

[131] "Profitable Partnership Comes to an End," *The Guardian (1959-2003)*, November 2, 1973; "More African Nations Cut Israel Ties," *The Afro-American*, November 3, 1973; "Ethiopia Wields Heaviest Blow as War Loosens Israel's Africa Ties"; "African Nation Says Israel Should Return Land to Arabs," *Bay State Banner (1965-1979)*, November 15, 1973.

[132] "Profitable Partnership Comes to an End"; "More African Nations Cut Israel Ties"; "Africans Urging Arabs to Curb Oil to White Regimes," *The New York Times (1923-Current File)*, November 21, 1973.

For many African countries, however, this entailed the loss of Israel's precious aid—from irrigation in the arid fields of the Sahel, to arms and military training, and to hundreds if not thousands of doctors, nurses, and teachers dispatched to remote impoverished communities. Breaking with Israel entailed serious sacrifices, so Ekangaki asked Arab countries to reciprocate: if Africa had come together to support the Arab world's struggle against Zionism, then the Arabs had to assist the OAU in eradicating the last remnants of colonialism and white supremacy in the African continent. And what better way than with the oil weapon, which was proving so effective against the West? After all, the "worst enemies of Black Africa" were exceptionally dependent on Middle Eastern oil, which accounted for 80 to 90% of South African and Portuguese oil consumption. And while Rhodesia was already under a U.N.-imposed trade embargo, it still trafficked petroleum and other goods through its neighboring allies: the Mozambican port of Beira—a major logistics hub for Southeastern Africa—maintained railway connections to Salisbury despite U.N. trade sanctions, and South Africa imported excess petroleum to supply the Rhodesian market. Thus, Ekangaki asserted that "the time has come for our Arab brothers to use the oil embargo as a weapon against these countries."[133]

The OAU sought to capitalize on its collective break with Israel, and at the suggestion of Algeria—which would host an Arab League Summit the following week—an OAU ministerial council convened on November 20 in Addis Ababa to debate the use of the Arab weapon in Southern Africa. Algerian Foreign Minister Abdelaziz Bouteflika called for an official institutional rapprochement between the OAU and the Arab League—through joint ministerial sessions and a summit of Afro-Arab heads of state. This then gave way to heated debates on the oil weapon: the

[133] "Profitable Partnership Comes to an End"; "Africans Urging Arabs to Curb Oil to White Regimes"; "Note on the Likely Effects of the Embargo," December 13, 1973, FCO 45/1260, Oil Embargo on Southern Africa, 1973, The National Archives, Kew, United Kingdom.

majority opinion, as expressed by Tanzanian Foreign Minister John Malecela, called for the Arab oil embargo to be expanded to Portugal, Rhodesia, and South Africa. However, these countries' neighbors begged to differ: the landlocked states of Botswana, Lesotho and Swaziland depended on their white-ruled neighbors for oil—so they risked becoming the innocent targets of any oil boycott. And they were not alone: South African black tribal chiefs also spoke out against the threat of an embargo. From Bophuthatswana and the Transkei to the Namibian Kavango, Bantustan leaders insisted that, if oil became scarce, the apartheid regime would keep most of the supplies for the white population and let the segregated blacks bear the brunt of the shortages. And yet, with Algeria's reassurances that the Arab world would take all the necessary measures to prevent collateral damage, the OAU established a Committee of Seven—including Botswana—to carry out official discussions on the oil weapon with the Arab League. The OAU summit thus finally resolved to break all relations with Israel, Portugal, Rhodesia, and South Africa—right as it prepared for an Afro-Arab economic offensive against its avowed Southern African enemies.[134]

The OAU thus grew hopeful that the Arab oil weapon could become an effective tool to support the continent's national liberation movements—whether it be implementing U.N. resolutions on Namibia's independence, forcing a political settlement upon Rhodesia, expelling Portuguese troops from Guinea-Bissau, or even coercing Lisbon into promising Angola and Mozambique their independence. But OAU members were particularly hopeful about the oil weapon's potential to undermine the much-despised apartheid regime. After all, Angola was a

[134] "OAU Debates South African Oil Embargo," *The Guardian (1959-2003)*, November 21, 1973; British Embassy in Addis Ababa to Foreign and Commonwealth Office, "OAU Council," Telegram 211427Z, November 22, 1973, FCO 45/1260, Oil Embargo on Southern Africa, 1973, The National Archives, Kew, United Kingdom; British Embassy in Addis Ababa to Foreign and Commonwealth Office, "OAU Council," Telegram 230612Z, November 24, 1973, FCO 45/1260, Oil Embargo on Southern Africa, 1973, The National Archives, Kew, United Kingdom; Commonwealth Secretariat, "Oil Sanctions and Southern Africa," April 1974, FCO 45/1492, Oil Embargo on Southern Africa, 1974, The National Archives, Kew, United Kingdom.

major oil producer, so its exports could be redirected to the Portuguese mainland. South Africa, however, was in a much more vulnerable position: aware that petroleum was its Achilles heel, the Pretorian government had frantically searched for oil across its territory—to no avail. It also invested in a research program to extract oil and gas from its rich coal reserves. The South African government had built the world's largest coal gasification and liquefaction plant of its kind close to the mines of the Free State, which it was connecting via a 120-mile pipeline to the Southern Transvaal's industrial centers. This plant's limited output, however, left South Africa with few alternatives but to import massive amounts of Persian Gulf oil. And yet, Pretoria was cognizant of its oil vulnerability, so it had built a legendarily vast petroleum emergency reserve that could allegedly withstand two years of regular oil consumption.[135]

But if OAPEC needed a smoking gun to connect an oil embargo on Southern Africa to the Israeli-Arab conflict, this came through a little-known Portuguese airbase in the Azores islands. During the 1960s, U.S. Democratic administrations had opposed Lisbon's colonial war on Africa—both on principle and for fear pushing newly-decolonized African states into the Soviet orbit. American relations with Portugal thus grew increasingly sour: they remained NATO allies, but Salazar did not renew U.S. rights to the strategic Lajes airbase in the Azores, and Kennedy refrained from vetoing a U.N. Security Council arms embargo against Portugal. Salazar's successor Marcelo Caetano, however, had hopes that a Republican president would prove more accommodating: he made the case for Portuguese colonization as the only viable alternative to communist rule in Southern Africa, and found more sympathetic ears in the Nixon administration. Thus, in 1971, Caetano renewed the U.S. air force's official access to the Lajes air base—hoping that Nixon would reciprocate by providing covert military support to Portugal. Little did Caetano

[135] "OAU Debates South African Oil Embargo"; "Note on the Likely Effects of the Embargo," December 13, 1973.

know that, two years later, this would place Portugal at the center of the 1973 Arab-Israeli war. After other NATO allies denied U.S. requests to use their airbases to resupply Israel, Lajes's strategic value skyrocketed: located halfway between the U.S. East Coast and Tel Aviv, it stood as the best potential refueling station for the U.S. to carry out its military airlift of Israel. Caetano knew the risks involved. However, Portugal and Israel had no diplomatic relations, which made it less likely for Arab countries to portray Portugal as a friend of Israel. In contrast, he would have much to gain if a grateful Nixon provided military support for the Portuguese colonial war.[136]

OAPEC had thus floated the idea of an embargo against Portugal since the early days of the October War. However, after the OAU summit on the Arab oil weapon, the threats against Lisbon grew more credible. On November 24, an Egyptian diplomat told Portugal's U.N. Ambassador Antonio Patricio to prepare: his country would finally pay for its support of Israel—so much, that it would not even be able to bring in oil from Angola. Patricio reminded him that Portugal had no diplomatic relations with the Jewish state, but the Egyptian envoy insisted that South African planes were stopping on the Azores on their way to Israel—an unsubstantiated claim. Patricio quickly raised alarms in Lisbon, where military intelligence was growing wary of a potential Arab airstrike against Angola's oil fields. The Portuguese government thus found itself paralyzed: if it joined the rest of Europe's chorus of condemnations against Israel, it risked losing whatever goodwill it had gained with the Nixon administration. If not, the Arabs would certainly retaliate.[137]

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[136] United Nations Security Council, "Resolution 180 (1963): On the Question of Territories under Portuguese Administration," July 31, 1963, S/RES/180(1963), United Nations Digital Library, https://digitallibrary.un.org/record/112179; Antunes, *Os Americanos e Portugal*, 264–76; José Freire Antunes, *Portugal na guerra do petróleo: os Açores e as vitórias de Israel, 1973* (Carnaxide, Portugal: Edeline, 2000).

[137] "Ministério dos Negócios Estrangeiros 1110. Da Missão de Portugal nas Nações Unidas em New York. Secção da Cifra. 23.XI.1973, número geral 15823. CONFIDENCIAL. Fonte confidencial APP.," quoted in José Freire Antunes, *Os Americanos e Portugal: v. 1, Os anos de Richard Nixon (1969-1974)* (Lisbon: Dom Quixote, 1986), 277; Antunes, *Os Americanos e Portugal*, 277–90.

By that point, however, no symbolic gestures could avert an embargo. From November 26 to 28, 1973, as the Arab League met in Algiers, Boumediene led the charge in deploying the Arab oil weapon in solidarity with black Africa. He claimed that the time had come for Arab countries to stand up to "imperialist and colonialist and racist countries" by adopting a "firm and clear attitude" towards Portugal, South Africa, and Rhodesia. Begging the Arab League to respond favorably to the OAU's call for assistance, he asserted the unity of Arab world and Africa in their shared experience of colonialism and racial discrimination. The oil weapons would not just serve the Arab cause, but that of mankind's "freedom and dignity." The Arab states thus officially unleashed the Arab oil weapon upon Southern Africa and severed all diplomatic and economic relations with the newly embargoed states.[138]

The Algiers Summit did more than just expand the embargo to Southern Africa—it promised to usher a whole new era in Afro-Arab relations. The Arab League vowed to strengthen economic, financial, and cultural ties with Africa, to become a major aid donor to the continent, and to boost material support for the continent's national liberation struggles. All the non-embargoed African states were automatically placed in OAPEC's "friendly" list—and would receive regular oil supplies at pre-war levels. Sustaining this burgeoning Afro-Arab solidarity over time also required some institutionalization. The Arab league set out to hold regular meetings with the OAU and its Committee of Seven in order to ensure that the oil weapon was effectively meeting African expectations. And as a token of generosity from the increasingly wealthy Arab petrostates, the summit vowed to establish a new Arab financial institution to foster Africa's agricultural, industrial, and infrastructural development: the Arab Bank for the Economic Development of Africa, with an initial capital of $125 million. Arab states would thus more than make up for the

[138] Commonwealth Secretariat, "Oil Sanctions and Southern Africa."

loss of Israeli development aid in Africa—rewarding the continent financially for its collective break with the Jewish state.[139]

Portugal and South Africa thus rushed to prepare an emergency response. Caetano first asked Gulf Oil, which exploited the Cabinda oil fields in Angola, to divert some of its oil shipments from the Americas to the Portuguese mainland—an uncomfortable request for the U.S. corporation, which was using Angolan oil to recoup the loss of Kuwait's oil shipments to the U.S. market. Under a veil of thick secrecy, however, Gulf Oil acquiesced. Caetano also reached out to Spanish *Caudillo* Francisco Franco—whose antipathy for Israel had earned him a place on the OAPEC "friendly" list. The Iberian dictators thus concocted a convoluted scheme for Spain to secretly send Arab oil to Portugal—by means of multiple transshipments in different French ports. With his bases covered, Caetano was thus able to meet South African Defense Minister Peter Botha's requests for emergency oil sharing among the embargoed allies.[140]

Moreover, South African Prime Minister John Vorster had long anticipated a potential oil embargo. After all, as early as 1960, the Conference of Independent African States had begun to call for oil sanctions against South Africa. His country was accustomed to the U.N.-enforced arms embargo, and the General Assembly had called for trade boycotts against the apartheid regime throughout the 1960s. Hence, his contingency plans—and especially his exceptionally voluminous two-year emergency oil stocks—gave him the benefit of time: he entered negotiations for an increase in Iranian oil shipments and set out to build the country's first nuclear power plants. In

[139] Arab League, "Declaration of the Arab Summit Conference at Algiers," November 1973, Virtual Jewish Library, https://www.jewishvirtuallibrary.org/declaration-of-the-arab-summit-conference-at-algiers-november-1973; "Arab Leaders Halt Oil to Portugal, Rhodesia, South Africa," *The Globe and Mail (1936-)*, December 29, 1973; "Arabs Halt Oil to Portugal, Rhodesia and South Africa," *New York Times*, November 29, 1973; "Text of Declaration After the Arab Leaders' Meeting," *New York Times*, November 29, 1973; Commonwealth Secretariat, "Oil Sanctions and Southern Africa."

[140] Antunes, *Os Americanos e Portugal*, 277–80.

the short run, however, South Africa had a major negotiating card under its sleeve: the geographic stranglehold it held over its landlocked neighbors Botswana, Lesotho, and Swaziland.[141]

The South African port of Durban played a role in Southern Africa akin to that of Rotterdam in Western Europe: its Sapref refinery was the largest one in the region, and its port had pipeline connections to other refining complexes in Johannesburg. South Africa's oil distribution network thus extended into Botswana, Malawi, Lesotho, Rhodesia, and Swaziland, as the apartheid regime had used oil in its controversial quest for dialogue, trade, and normalization with the rest of the continent. Additionally, Botswana, Lesotho, and Swaziland were fully landlocked by embargoed countries: only Botswana had a small crossing to Zambia in the Victoria Falls, but it was unsuitable for large transits of oil. This gave Pretoria an invaluable negotiating chip to turn the embargo in its favor.[142] When the Botswanan government asked South African Prime Minister John Vorster to maintain oil shipments to his country, Vorster demurred: by supporting the embargo, Botswana had knowingly brought this crisis upon itself—so it would suffer the consequences. Botswana, Lesotho, and Swaziland's economic future thus rested in the apartheid regime's hands.[143]

Facing this impasse, the Botswanan government used its position in the OAU Committee of Seven to plead for the Arab world's help. The Arab League granted Algeria special authority to enhance the effectiveness of the embargo and fight South Africa's reverse blackmail. Hence, while Faisal led the Arab oil embargo against Israel, Boumediene became the uncontested wielder of the

[141] Commonwealth Secretariat, "Oil Sanctions and Southern Africa."

[142] THR Cashmore, African Section RD, "The Oil Problem in Southern Africa," November 22, 1973, FCO 45/1491, Oil Embargo on Southern Africa, 1974, The National Archives, Kew, United Kingdom.

[143] British Embassy in Gaborone to Foreign and Commonwealth Office, "Oil Supplies," Telegram 11E745Z, December 11, 1973, FCO 45/1260, Oil Embargo on Southern Africa, 1973, The National Archives, Kew, United Kingdom.

oil weapon in Southern Africa—thus continuing to cement his position as the purported leader of the Third World.[144] Boumediene picked up from his predecessor Ahmed Ben Bella, who during the 1960s had built Algeria's reputation as the "Mecca of the Revolution."[145] Indeed, as Guinea-Bissau's anti-colonial leader Amilcar Cabral put it in 1969, "the Muslims make the pilgrimage to Mecca, the Christians to the Vatican and the national liberation movements to Algiers."[146] Thus, by brandishing the oil weapon against South Africa and Portugal, Boumediene added a new dimension to Algeria's historical record of supporting revolutionary insurgent movements in Africa and beyond.

But despite these lofty pretensions, the embargo against South Africa failed to live up to its expectations—at least for its initial few years. African oil producers such as Nigeria rapidly sought to move in to replace Arab oil shipments into the landlocked countries, even if it entailed transit via South Africa. Alternative solutions—from airlifting oil to building new land routes through Zaire and Zambia—proved thoroughly unpractical.[147] In the end, the region's political geography left Pretoria as an unavoidable interlocutor for the OAU and the Arab League: overland transit through South Africa remained the only sensible option for Arab oil shipments to reach Botswana, Lesotho, and Swaziland. Thus, along with its exceptional petroleum emergency stocks, the apartheid regime's stranglehold over its neighbors minimized the severity of the embargo.

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[144] British Embassy in Algiers to Foreign and Commonwealth Office, "Oil and South Africa," Telegram 041400Z, December 11, 1973, FCO 45/1491, Oil Embargo on Southern Africa, 1974, The National Archives, Kew, United Kingdom.

[145] For Algeria's leading role in articulating the North-South conflict, see Matthew James Connelly, *A Diplomatic Revolution: Algeria's Fight for Independence and the Origins of the Post-Cold War Era* (Oxford ; New York: Oxford University Press, 2002); Jeffrey James Byrne, *Mecca of Revolution: Algeria, Decolonization, and the Third World Order*, Oxford Studies in International History (New York, NY: Oxford University Press, 2016).

[146] Garavini, *The Rise and Fall of OPEC in the Twentieth Century*, 237.

[147] E. G. Le Tocq to P. M. Foster Est., Central and Southern African Department, FCO, December 3, 1973, FCO 45/1260, Oil Embargo on Southern Africa, 1973, The National Archives, Kew, United Kingdom; E. J. Emery to A. B. Moore Esq MBE, "Oil Supplies," December 17, 1973, FCO 45/1260, Oil Embargo on Southern Africa, 1973, The National Archives, Kew, United Kingdom.

Despite rolling out conservation measures—from closing gas stations on Sundays to reducing speed limits—South Africa never had to ration fuel and continued shipping oil to Rhodesia. And while Ian Smith's government in Salisbury had to take more radical energy-savings measures, its experience in circumventing sanctions—and South Africa's generosity—also mitigated the economic blow.[148]

The same could not be said for Portugal, however, whose Ministry of the Economy quickly warned of a serious crisis in which "the stability of the regime and the security of its African provinces could be in question."[149] Despite its increased consumption of Angolan oil, the country still experienced oil shortages, which, in turn, led factories to decrease production, cut down the number of flights into Lisbon, and sharply reduced income from tourism. This further raised the costs of the colonial war, which already gobbled up 40% of the state's budget. And to preserve oil stocks for the African counterinsurgency, Caetano had to ration gasoline for cars and motorcycles both in metropolitan Portugal and in Mozambique. He certainly did not garner any public sympathy when he blamed the shortages on average people who "rushed to filling gas stations and bought up all the petrol."[150]

Moreover, after having paid a high price for assisting the U.S. airlift to Israel, Caetano gained nothing in return from Washington. In December 1973, Kissinger visited Lisbon—raising hopes among Portuguese officials that the Nixon administration might finally help the *Estado Novo* turn the tide in its long-drawn-out colonial war. To their frustration, however, they only got "pretty words of gratitude."[151] After all, Congressional Democrats—and especially the Black Caucus—

[148] Commonwealth Secretariat, "Oil Sanctions and Southern Africa."

[149] Commonwealth Secretariat.

[150] Commonwealth Secretariat.

[151] Antunes, *Os Americanos e Portugal*, 279.

had grown very suspicious of Nixon's dealings with Portugal. In March and April 1973, they had carried out hearings to investigate whether the administration had offered any clandestine aid to Portugal in return for the Lajes airbase—in violation of the U.N. arms embargo.[152] Hence, with impeachment proceedings growing likelier by the day, Nixon took no risks for Caetano.[153]

Thus, by January 1974, the combined effects of the Arab oil embargo and the OPEC oil price hike plunged Portugal into a dual energy and economic crisis—which exacerbated discontent among civilians and military officers alike. In Mozambique, FRELIMO's continued military advances caused anxiety among the colony's half-million white settlers—who rose in rebellion. Fearing that the Mozambican colonial elites would follow Rhodesia's path and unilaterally declare independence, the Portuguese army found itself—for the first time—firing upon its own white colonists. Thus, the economic crisis, along with Caetano's unpopularity, and the growing sense that the regime had lost its grip over the colonies, inspired leftist military officers to conspire against the *Estado Novo*. And as liberal young officers, communist militants, and socialist labor leaders mobilized from below, the regime also began to crack at the highest echelons of military power: conservative General Antonio de Spinola sent shockwaves across the nation when he publicly defied Caetano by arguing for the colonies' self-determination in his widely-discussed book *Portugal e o Futuro*. Finally, on April 25, in the so-called Carnation Revolution, a largely bloodless left-leaning military coup brought the country's five-decades-long right-wing dictatorship to an end, right as throngs of protestors filled Lisbon's streets demanding a transition

[152] United States Congress House Committee on Banking and Currency Subcommittee on International Finance, *Implementation of the U.S. Arms Embargo (Against Portugal and South Africa, and Related Issues): Hearings before the Subcommittee on Africa of the Committee on Foreign Affairs House of Representatives, Ninety-Third Congress, First Session. March 20, 22, and April 6, 1973* (Washington: U.S. Govt. Print. Off., 1974).

[153] Antunes, *Os Americanos e Portugal*, 286–87.

to democracy. The First Oil Shock thus helped pave the way for Portuguese Africa's independence—bringing Europe's last major colonial empire to an end.[154]

Conclusion:

The Arab oil weapon revealed the myriad incoherencies that plagued U.S. foreign relations. In the Middle East, America's three main allies—Israel, Iran, and Saudi Arabia—sparred with each other while undermining American interests. Shah Pahlavi and King Faisal each sought to blame the other for the United States' deepening energy crisis. The Shah urged Faisal to lift the embargo, but he pushed global oil prices through the roof. King Faisal opposed the Shah's oil price hike, but his oil supply cutbacks justified a price increase. Meanwhile, the U.S. alliance with Israel was repulsive to King Faisal, making him doubt the long-term viability of the U.S.-Saudi relationship. Israel's sense of unconditional American support also provided it with little incentive to make concessions at the negotiating table—which left Faisal with no choice but to push the embargo forward. This signaled how Kissinger had failed to reconcile his Cold War objectives with the needs of the global economy. By prioritizing U.S. support for Israel over the world's need for oil, he alienated not only Saudi Arabia, but also Europe and Japan—which were much more dependent on Arab oil.[155] On the flipside, Western Europe, Japan, and Canada's rush to fend for themselves also revealed the vacuity of Western solidarity. Even at the heart of the European Community, France and Britain's refusal to assist the Netherlands showed that national interests superseded any lofty aspirations for unity and solidarity. The Arab oil weapon thus threatened to undermine both the Atlantic Alliance and the European project.

[154] Antunes, 281–312.

[155] Daniel Sargent reaches a similar conclusion. See Sargent, *A Superpower Transformed*, ch. 5.

This stood in stark contrast with the rise of Afro-Arab cooperation and South-South solidarity during the Oil Shock. The story of the Arab oil embargo against Southern Africa—which has generally been lost to the historiography—reveals how the oil weapon also served as an engine for cooperation across regional boundaries, binding Africa and the Arab world—with Algeria as their bridge—in a firm commitment to the Third World's struggle against Western colonialism, racial discrimination, and white supremacy. Despite its initial shortcomings, the embargo against Portugal, Rhodesia and South Africa was more than symbolic: it helped destabilize the Portuguese regime, and also planted the seeds for the more successful 1977 U.N. oil embargo against South Africa and Rhodesia, which eventually strangled both of their economies. It also built new financial networks of Arab aid to Sub-Saharan Africa: The Arab Bank for Economic Development in Africa still stands. This mutual moral support would climax in the U.N. General Assembly's condemnation of Zionism as a form of racism in November 1975—which also came as a product of this partnership.[156] Conversely, by alienating Israel, this Afro-Arab rapprochement pushed the Jewish state into a period of closer collaboration with South Africa in the 1970s—raising suspicions of nuclear assistance to the apartheid regime.[157]

Thus, while the economic impact of the embargo would be dwarfed by that of OPEC's subsequent price shock, its geopolitical and psychological effects endured. Indeed, far from producing an economic cataclysm, the Arab oil embargo only reduced global oil supplies by about 5%. As non-Arab oil-producers slowly ramped up production, the multinational corporations were quite effective at redirecting non-Arab oil flows to mitigate the impact of OAPEC's cutbacks—

[156] Timothy M. Shaw, "Oil, Israel and the OAU: An Introduction to the Political Economy of Energy in Southern Africa," *Africa Today* 23, no. 1 (1976): 15–26.

[157] James Adams, *The Unnatural Alliance* (London ; New York: Quartet Books, 1984); Chris McGreal, "Revealed: How Israel Offered to Sell South Africa Nuclear Weapons," *The Guardian*, May 24, 2010, sec. World news, https://www.theguardian.com/world/2010/may/23/israel-south-africa-nuclear-weapons.

often to the benefit of the United States—all while some Arab states like Libya cheated by allowing enabling oil-re-exports to embargoed countries. But moving deeper into winter, the United States' oil scarcity worsened, producing the searing memories of oil shortages and long lines at the pump. Even then, this narrow economic lens misses the psychological and emotional impact of the embargo upon the world: with Saudi Arabia's humiliation of the United States, the Arab world's show of its oil power, the bitter fractures within the Atlantic Alliance, the mutual distrust among European countries, the mounting tide of anticolonial solidarities, and Israel's sudden isolation on the world stage, the Arab oil weapon effectively reshaped the world order in the final months of 1973. Since this date, fears of energy scarcity—real or manufactured—continue to drive the West's national security strategies.[158]

[158] Robert Vitalis, *Oilcraft*, 57-83.

Chapter III:
One State's Blessing is Another State's Curse:
The OPEC Price Shock, Global Monetary Disruption, and Western Fracture, 1974

On January 1, 1974, with the fourfold increase in OPEC's posted oil price coming into effect, the nature of the Energy Crisis fundamentally changed. Up to that point, the world had been mainly concerned with OAPEC's oil embargo and production cutbacks along with the resulting global energy scarcity. However, with this unparalleled price shock—along with Arab oil producers' restoration of supplies to Western Europe, Japan, and much of the Global South—the world's attention shifted away from the security of Middle Eastern oil supplies and into the international monetary sphere: the non-Communist world's oil import bill was expected to increase from $45 billion in 1973 to $116 billion in 1974—an effective transfer of about $70 billion from the oil consuming world to the coffers of OPEC. This would unleash not just unprecedented global balance of payments disequilibria, but also the most massive peacetime international transfer of wealth in recorded history.[1] Hence, OPEC's sudden affluence could turn into a tragedy for much of the rest of the world, as the buildup of current account deficits among oil-importing countries—industrialized and developing alike—promised to pose serious challenges to the global economic order. In a climate of urgency and deep uncertainty, world leaders sought to grapple with the threat of currency destabilization, budget imbalances, and skyrocketing debt, all while trying to gauge how the oil-importing world would be able to afford such abruptly exorbitant oil bills.

With global monetary problems evoking the specter of the Great Depression, the international community stood at a crossroads: it could take the ominous path of nationalism, unilateralism, and fragmentation—mirroring the self-defeating measures that had sunk the world

[1] "International Economic Impact of Increased Oil Prices in 1974," January 1, 1974, General CIA Records, ESDN (CREST): CIA-RDP85T00875R001500190021-9, CIA Freedom of Information Act Electronic Reading Room, https://www.cia.gov/readingroom/docs/CIA-RDP85T00875R001500190021-9.pdf.

into a downward spiral during the 1930s—or it could embrace a new era of multilateral cooperation, dialogue, and unity to provide concerted solutions to common problems. Indeed, the OPEC price shock revealed the reality of the world's deep economic interconnection and integration in the accelerating process that would later be known as Globalization. Moreover, for the increasingly embattled Nixon administration—facing political collapse at home with the Watergate scandal and humiliation abroad with the debacles of Vietnam and the persistent Arab embargo—OPEC's price shock paradoxically arose as an unexpected opportunity to reclaim the mantle of global leadership. Higher oil prices were expected to strengthen the dollar and restore the U.S.'s economic competitiveness relative to Europe and Japan, prompting Kissinger to lead the way as the staunchest advocate of Western cooperation in the face of OPEC. The Secretary of State sought to rise to the occasion by leading a Washington Energy Conference in February 1974, in which he hoped to solve the unfolding crisis by forging unity within the industrialized West—with the United States at its helm. However, other major economies such as the United Kingdom, Japan, and especially France remained skeptical of both the prospects of a multilateral solution to the crisis and of Kissinger's alleged benevolence. With France opting to undertake its own bilateral dealings with OPEC states as a desperate solution to its balance of payments predicament, French Foreign Minister Michel Jobert challenged Kissinger's calls to Western unity, driving a wedge not only in the Atlantic Alliance, but even into the heart of the European Community. The interests of France and the United States would prove irreconcilable, turning this potential moment of coalescence into a time of Western fracture—presenting OPEC with yet another victory as the global Energy Crisis continued to rage on.

The historical literature has yet to give a global perspective on the dilemmas pressed upon the oil-consuming world at the onset of the OPEC price shock—which cannot be properly done without connecting the monetary and geopolitical dimensions of the Energy Crisis.[2] In fact, the Oil Shock arose amid a contentious process of international monetary reform and became intimately connected to the fate of currency regimes, balance of payments and indebtedness. In this sense, economic and geopolitical policy choices were deeply intertwined. And at the center of IMF discussions on the world's new monetary order, there lay the question of U.S. power: Would the U.S.—and its dollar—remain hegemonic in the capitalist economic world order, or would the Energy Crisis and global monetary reform pave the way for a new multipolarity? We will thus first assess how diverging responses to this essential question set the stage for the competing policy choices of the U.S. and West Germany on the one hand, and France, Japan and the United Kingdom on the other: while the first sought to preserve Western unity, the latter were bent on securing economic lifelines from OPEC states through bilateral trade deals.[3] We will then assess the

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[2] There is, however, a rich historiography on specific Western European countries (France, the U.K., the Netherlands, West Germany) and Japan's uneasy relations with the United States during the First Oil Shock. See Duco Hellema, Cees Wiebes, and Toby Witte, *The Netherlands and the Oil Crisis: Business as Usual* (Amsterdam University Press, 2004), https://www.jstor.org/stable/j.ctt46mzm8; David Styan, *France & Iraq: Oil, Arms and French Policy Making in the Middle East*, Library of International Relations (Series) 25 (London ; New York: I.B. Tauris, 2006); William Glenn Gray, "Floating the System: Germany, the United States, and the Breakdown of Bretton Woods, 1969–1973," *Diplomatic History* 31, no. 2 (2007): 295–323, https://doi.org/10.1111/j.1467-7709.2007.00603.x; Alex Spelling, "Edward Heath and Anglo-American Relations 1970-1974: A Reappraisal," *Diplomacy and Statecraft* 20, no. 4 (2009): 638–58, https://doi.org/10.1080/09592290903455766; Werner D. Lippert, *The Economic Diplomacy of Ostpolitik: Origins of NATO's Energy Dilemma* (New York: Berghahn Books, 2011); William Glenn Gray, "Commercial Liberties and Nuclear Anxieties: The US-German Feud over Brazil, 1975-7," *International History Review* 34, no. 3 (2012): 449–74, https://doi.org/10.1080/07075332.2012.675221; Aurélie Élisa Gfeller, *Building a European Identity: France, the United States, and the Oil Shock, 1973-74*, 1st ed. (New York, NY: Berghahn Books, 2012); Alex Spelling, "'Recrimination and Reconciliation': Anglo-American Relations and the Yom Kippur War," *Cold War History* 13, no. 4 (2013): 485–506, https://doi.org/10.1080/14682745.2012.679658; Erika Tominaga, "Japan's Middle East Policy, 1972-1974: Resources Diplomacy, Pro-American Policy, and New Left," *Diplomacy and Statecraft* 28, no. 4 (2017): 674–701, https://doi.org/10.1080/09592296.2017.1386461; Rüdiger Graf, *Oil and Sovereignty: Petro-Knowledge and Energy Policy in the United States and Western Europe in the 1970s* (New York: Berghahn Books, 2018).

[3] Historians Daniel Sargent and Giuliano Garavini have noted the tension between bilateral and multilateral solutions to the OPEC price shock, but they do not explore but the motivation and reasoning behind these competing logics, and the way in which bilateral competition between France and the United States eventually played out—resulting in creation of a U.S.-Saudi special relationship upon new grounds. Chris Dietrich also notes the tragic nature of OPEC's "victory" with the price shock, especially as it came to undermining the economic growth of much of the Global South. See Daniel J. Sargent, *A Superpower Transformed: The Remaking of American Foreign Relations in the 1970s* (Oxford: Oxford University Press, 2015); Christopher R. W. Dietrich, *Oil Revolution: Anticolonial Elites, Sovereign Rights, and the Economic Culture of Decolonization*, Global and International History

challenges posed by the Price Shock to the IMF's ongoing process of reforming the international monetary system. Indeed, the January 1974 IMF meeting in Rome became an inherently geopolitical meeting touching upon questions of national sovereignty in foreign policy, the role of the United States in the world system, and the hegemonic place of the dollar in the global economy. It also raised the subject of petrodollar recycling—an issue that would become increasingly contentious among Western allies and oil producers alike. Finally, we will explore how the Washington Energy Conference turned out to be far from successful in rallying the leading capitalist states against OPEC, becoming instead the scene of a very public showdown between Henry Kissinger and French Foreign Minister Michel Jobert. This clash dashed hopes of Western unity, eventually unleashing a global scramble for bilateral oil deals with OPEC states that trampled upon Kissinger's hope to assert unequivocal American leadership in a globalizing world.

I. The Specter of the Great Depression: OPEC's Oil Price Shock and the Balance of Payments Crisis

OPEC's decision to quadruple the posted price of oil over a three-month period transformed the world's economic outlook. While OPEC had already decided on a first price increase in October 1973, attention had remained focused on the shortage in international oil supplies generated by the embargo and the Arab production cutbacks, relegating the question of oil prices to the background. However, when, on December 23, 1973, OPEC's Tehran summit unilaterally resolved that the posted price of oil would once again double on New Year's Day, the picture changed.[4] According to CIA estimates, the value of U.S. oil imports stood to rise from $9

(Cambridge, United Kingdom ; New York, NY, USA: Cambridge University Press, 2017); Giuliano Garavini, *The Rise and Fall of OPEC in the Twentieth Century*, First edition. (Oxford: University Press, 2019).

[4] We must remember that OPEC's posted price is a reference price used for calculating taxes and royalties, not the actual price received by consuming governments. Hence, while the OPEC posted price was raised from $3.00 per

billion in 1973 to $25 billion in 1974, while Japan's would triple from $6.6 to $18 billion, and Western Europe's would more than double to jump from $22 to over $55 billion. Overall, this amounted to a transfer of about $70 billion from the capitalist oil-consuming world to OPEC, which expected to see its oil export revenues rise from $27 billion in 1973 to $95 billion in 1974.[5] The OECD assessed these prices to be excessively high, and yet, the combination of OPEC's monopoly power with the world's difficulty in finding short-term substitutes for oil could allow these prices to last for years.[6]

Such high oil prices promised to generate complex challenges for the world economy. Most immediately, they could exacerbate already-high inflation rates, potentially pushing them into the double digits across the industrialized world. But the most essential problem was that of balance of payments. For both Western Europe and Japan—with high levels of oil import dependence—trade deficits were set to deteriorate dramatically: for instance, Europe's oil-related current account deficit was expected to worsen from $5 billion in 1973 to a staggering $35 billion in 1974. These could in turn be translated into economic stagnation, or even decline. Hence, in order to offset these deficits and avert recessions, Western countries would have to expand their exports – but to whom? The only countries experiencing trade surpluses—and hence with the ability to significantly expand their imports—were OPEC states. However, it was unclear how developing countries such as Saudi Arabia, Iran or Venezuela would be able to spend tens of billions of dollars

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barrel to $5.11 per barrel during the October crisis, and then once again to $11.65 per barrel in December 1973, each OPEC member's crude price evolved in its own way. For instance, the price of Arabian light crude that reached Europe and North America increased from $3.45 to $5 per barrel in October, and then to about $9.00 by January 1st, 1974. See "A Preliminary Assessment of the Impact of Further Sharp Increases in the Price of Oil," January 4, 1974, CHR, F239728, Oil, the role of the Price Mechanism, Energy Situation and Contacts with OPEC, 1973/79, OECD Archives, Paris, France.

5 "International Economic Impact of Increased Oil Prices in 1974."

6 "A Preliminary Assessment of the Impact of Further Sharp Increases in the Price of Oil."

a year to import American, European, and Japanese manufactured goods. In fact, Western officials began wondering what OPEC countries would do with their massive surpluses: How would they invest them? Where would all that money go? Could industrialized countries get these dollars to flow back, through trade or any other means?[7]

Furthermore, in an ironic twist of fate, the price shock improved the U.S.'s relative international competitiveness vis-à-vis its industrialized rivals. After the Second World War, Western Europe and Japan had been rebuilt with oil from the Persian Gulf as their main energy source—an import-dependence that remained virtually unchanged through the first half of the 1970s.[8] In contrast, in 1974, the United States continued to domestically produce between 60% and 70% of the oil it consumed and had only recently opened itself up to petroleum imports from the Middle East.[9] Hence, Western Europe and Japan were set to lose purchasing power as they diverted funds into paying for their colossal oil import bills, all while the U.S. was set to fare much better—with its domestic economy and industrial export sector being less affected by higher energy costs. Additionally, after years of apprehension about the dollar's weakness, global demand for U.S. dollars was set to skyrocket: the dollar was the main currency in which oil was traded internationally, so every oil-importing country needed to find dollars to pay for these imports. The floating dollar was strengthened by this skyrocketing demand, and on the flipside, it was now the Japanese Yen and the Western European currencies that elicited concern from the international

[7] "International Economic Impact of Increased Oil Prices in 1974"; "A Preliminary Assessment of the Impact of Further Sharp Increases in the Price of Oil."

[8] For the U.S. role in creating these levels of European dependence on Persian Gulf oil, see David S. Painter, "The Marshall Plan and Oil," *Cold War History* 9, no. 2 (2009): 159–75, https://doi.org/10.1080/14682740902871851.

[9] For the competitive edge of the U.S. economy over Europe's and Japan's in the oil crisis, see David S. Painter, "Oil and Geopolitics: The Oil Crises of the 1970s and the Cold War," *Historical Social Research (Köln)* 39, no. 4 (150) (2014): 186–208.

financial community.[10] Hence, thanks to the OPEC price shock, the crisis of the dollar suddenly looked as a matter of the past, presenting a golden opportunity for the embattled Nixon administration to reassert its claim to global leadership by inviting the world's largest industrialized countries to an Energy Conference to be held in Washington in February 1974.[11]

On January 9th, 1974, in his invitation to the Washington Energy Conference, Nixon laid out two possible paths forward for the industrialized world: "We can go our own separate ways, with the prospect of progressive division, the erosion of our vital interdependence, and increasing political and economic conflict; or we can work in concert, developing enlightened unity and cooperation for the benefit of all mankind."[12] He affirmed the need to seek a multilateral solution to the oil supply and price problems, all while implicitly denouncing a growing and allegedly dangerous trend: the search for bilateral solutions in which individual countries sought mutually-beneficial trade agreements with individual OPEC governments to the detriment of their allies. These bilateral deals, as were being negotiated by the U.K. and France with Persian Gulf states, threatened to pit consuming countries against each other as they competed for oil producers' favors, all while betraying the unity of the Atlantic Alliance—which risked being crippled by OPEC's multi-pronged economic offensive.[13]

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[10] It must be noted that, in a floating regime, the exchange rate is determined by the international supply and demand of currency—as opposed to a fixed regime in which the exchange rate is held stable through central bank interventions. While the dollar had begun floating since the end of Bretton Woods in 1971, more currencies had joined a floating regime in 1973 what expected to be a temporary measure before an eventual return to fixed and stable exchange rates. The fourfold increase in oil prices sent shockwaves across global foreign exchange markets, with, for instance, the Japanese Yen undergoing a 7% depreciation in January 1974. "Paper Prepared in the Office of Economic Research, Central Intelligence Agency," January 1974, *FRUS*, Vol. XXXVI, Doc. 277; Embassy in Tokyo to State Department, "Japanese Press Reaction to Yen Devaluation," Telegram 00199, January 8, 1974, 1974TOKYO00199, Central Foreign Policy Files, 1973-79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration.

[11] "Editorial Note," *FRUS*, Vol. XXXVI, Doc. 280.

[12] "Editorial Note."

[13] "Summary of Decisions from Secretary of State's Staff Meeting," January 8, 1974, *FRUS*, Vol. XXXVI, Doc. 279, https://history.state.gov/historicaldocuments/frus1969-76v36/d279.

And yet, this dichotomy did not seem evident for the other parties involved: the multilateral solution, as designed by Kissinger and presented by Nixon, only involved U.S.-allied industrialized nations—excluding OPEC and the developing world (not to mention the Socialist bloc). Hence, it appeared like an effort by Kissinger to create a united bloc of rich oil-consuming countries to band up against OPEC. Moreover, the invitation also implied that the crisis could only be solved under the aegis of U.S. leadership—not through international organizations or multilateral forums such as the United Nations, the OECD, or the IMF. Thus, allies and foes alike sought to derail the Washington Energy Conference. On January 18, the French government came up with its own proposal for a World Energy Conference under U.N. auspices, examining the oil problem with OPEC states and developing countries alike. This proposal thus sought to protect France's image as the "friends of the Arabs," which President Georges Pompidou and his Foreign Minister Michel Jobert had cultivated since the October War. Moreover, the French proposal also sought to engage existing Third World institutions such as the U.N. Economic and Social Council (ECOSOC), the U.N. Conference on Trade and Development (UNCTAD), and the U.N. Economic Commission for Latin America and the Caribbean (ECLAC)—which stood in stark contrast to Nixon's exclusive forum of rich countries.[14] At the very least, Jobert wanted to minimize U.S. leadership in any energy talks by moving them away from Washington into the OECD headquarters in Paris. [15]

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[14] "Summary of Decisions from Secretary of State's Staff Meeting," January 8, 1974, *FRUS*, Vol. XXXVI, Doc. 279, https://history.state.gov/historicaldocuments/frus1969-76v36/d279; "Editorial Note," *FRUS*, Vol. XXXVI, Doc. 280; Embassy in Paris to State Department, "Energy -- French Proposal for UN Energy Conference," Telegram 01652, January 19, 1974, 1974PARIS01652, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration; "Memorandum from Charles A. Cooper of the National Security Council Staff to Secretary of State Kissinger," January 21, 1974, *FRUS*, Vol. XXXVI, Doc. 286.

[15] US Mission to the OECD in Paris to State Department, "Energy Conference Discussion among HLG Heads of Delegations," Telegram 01282, January 16, 1974, 1974OECDP01282, Central Foreign Policy Files, 1973-

And Algeria—usually at odds with France—also came up with a similar proposal. President Houari Boumediene requested an extraordinary session of the U.N. General Assembly to discuss the Energy Crisis in a truly multilateral fashion, with the goal of establishing “a new system of relations based on equality and common interests of all states.”[16] Building upon the September 1973 Non-Aligned Conference in Algiers, which had called for developing countries to follow OPEC’s lead in seeking greater control over their natural resources, he also wanted to expand the session’s focus to encompass not just oil, but all raw materials. This, he claimed, would help democratize world economic relations in favor of the Global South. Boumediene thus positioned himself as the uncontested leader of the Third World, and the architect of a global movement for economic redistribution borrowing from Argentine economist Raul Prebisch’s ideas of dependency theory—which stipulated that commodity-exporting developing countries were structurally trapped in poverty due to their unequal terms of trade with developed nations. But he also had other self-interested reasons to bring the industrialized world into any discussion of the oil shock: given the nefarious impact of the oil price hike on non-OPEC developing countries, India and Yugoslavia had already called for a meeting of non-aligned foreign ministers to discuss the crisis—which risked turning into a bitter clash between increasingly wealthy OPEC oil producers and the world’s less fortunate developing countries. Bangladesh and Yugoslavia’s rapid support for Boumediene thus made it likelier that he could use the U.N. as a forum to keep the Global South united in an economic rebellion against the North.[17]

79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration.

[16] U.S. Mission to the United Nations in New York to State Department, “Algerian Request for Special Session of UNGA,” Telegram 00364, February 1, 1974, 1974USUNN00364, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration.

[17] “Minutes of the Secretary of State’s Staff Meeting,” January 31, 1974, *FRUS*, Vol. XXXVI, Doc. 293, https://history.state.gov/historicaldocuments/frus1969-76v36/d293; U.S. Embassy in Algiers to State Department,

But Kissinger was sternly opposed to both the French and the Algerian initiatives of taking energy discussions to the United Nations—which "would produce chaos."[18] West German officials agreed: the Least Developed Countries (LDCs) should have been the West's natural allies against OPEC's oil price hike, but the growing alliance between Arab states and the LDCs—especially African states—had turned the U.N. General Assembly into an increasingly hostile space not just for Israel, but also for the United States and its allies. State Department officials and their West German counterparts dismissed the sincerity and power of Afro-Arab anticolonial solidarities, assuming instead that the Arabs were just "subsidizing votes in the UN" and "buy[ing] off the LDCs" by "making some loans to Africa." They found it even more appalling that Arabs were "able with our dollars to replace development aid," which removed any incentives for African nations to cooperate with the West. Kissinger and West German Minister Egon Bahr thus concurred that U.N.-level discussions had to be evaded at all costs. Global energy discussions had to be restricted to a narrow set of industrialized capitalist countries—which, as Kissinger had mentioned in his speech to the Pilgrims Society in London in December, should come together into an Energy Action Group.[19]

"Algeria Proposes Convening Extraordinary Session of UNGA," Telegram 00206, January 31, 1974, 1974ALGIER00206, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration; U.S. Mission to the United Nations in New York to State Department, "Algerian Initiative on Extraordinary UNGA Session," Telegram 00358, January 31, 1974, 1974USUNN00358, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration; U.S. Embassy in Algiers to State Department, "Algerian MinInd Abdesselam's Views on Oil and Washington Energy Conference," Telegram 00224, February 1, 1974, 1974ALGIER00224, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration; U.S. Mission to the United Nations in New York to State Department, "Algerian Initiative on Extraordinary UNGA Session," January 31, 1974.

[18] State Department to Embassy in Paris, "Secretary's Meeting with Waldheim: Energy," Telegram 017771, January 28, 1974, 1974STATE017771, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration.

[19] "Memorandum of Conversation: Energy," February 1, 1974, *FRUS*, Vol. XXXVI, Doc. 295.

But behind these calls for oil-importing-country solidarity against OPEC, the oil crisis was hardening energy nationalisms across the industrialized world—which also stood to hinder the formation of a unified consumers' bloc. This showed the remarkable success of Arab oil producers' push to sow divisions among industrialized oil-importing countries between "hostile" embargoed nations like the United States and the Netherlands, and "friendly" states like France and the United Kingdom. For the French government, for instance, the persistence of the embargo still served as a reminder that any obvious support for the United States could potentially threaten its favorable treatment by Arab oil producers.[20] But these were not the only tensions among oil-consuming countries: the United States, the United Kingdom, and the Netherlands had significant oil and gas reserves that remained to be exploited, all while they benefitted from the global leadership of their multinational oil corporations—the Seven Sisters. In contrast, France, Italy, West Germany, and Japan did not have the domestic resources or the historical commercial influence over major oil producing countries that would guarantee their long-term supplies.[21] All of this threatened to turn the Washington Energy Conference into a spectacle of Western disunity.

Beyond these frictions, it was the question of bilateral deals that stood out as the thorniest issue that risked jeopardizing the U.S.'s ability to create a united front of oil-importing countries against OPEC, all while driving a deep wedge within the Atlantic Alliance. France and Britain stood out as the largest industrialized capitalist economies to have consistently remained "friendly" to OAPEC, so they could pit Arab and non-Arab oil producers against each other to negotiate lower prices bilaterally. But how should they interact with Middle Eastern oil producers?

[20] "Note pour Monsieur le Premier Ministre sur la Coopération avec l'Iran, Notamment sur d'Importants Gisements de Gaz Naturel," January 15, 1974, 19830369/1, Minutier du délégué général à l'énergie, 1973-Juin 1974, Archives Nationales de France, Pierrefitte-sur-Seine, France.

[21] "Remarques sur la position de M. F. Mitterrand dans son étude 'Pour une Vraie Politique de l'Energie,'" April 25, 1974, 19830369/1, Minutier du délégué général à l'énergie, 1973-Juin 1974, Archives Nationales de France, Pierrefitte-sur-Seine, France.

Historically, importing countries had purchased oil from multinational corporations—with limited input from oil-producing states. However, the waves of nationalizations and calls for state participation in oil production that had spread across OPEC since Qaddafi's revolution had fundamentally changed the landscape of global hydrocarbon markets. A new world was arising in which oil was to be purchased directly from OPEC governments without the intermediation of multinational companies.[22] This stimulated the development bilateral negotiations between oil-consuming countries and OPEC governments to secure long-term oil contracts. But this new state-led energy framework presented a series of challenges: the proliferation of government-to-government oil deals threatened to crystalize high oil prices as a new long-term reality, and oil trade risked becoming an even more politicized matter—with OPEC members seeking to embed contracts within broader economic partnerships that would contribute to their own state-building and development strategies. Hence, the world's largest industrialized economies—with the notable exception of the U.S.—began sending diplomatic envoys and delegations to oil-producing states, unleashing a race for oil contracts and economic agreements with OPEC countries.[23]

Since December 1973, the British and French governments had taken the lead in actively negotiating trade deals that might relieve them from the dire straits in which the First Oil Shock had placed them. In fact, despite being spared the Arab oil production cutbacks, they were still affected by global energy shortages—especially with the multinational oil companies' diversions of non-Arab oil into embargoed economies. Additionally, they both experienced energy crises of their own during the winter of 1973-1974—a coal crisis in Britain, and a gas crisis in France.

[22] This is covered in the second chapter of the dissertation. The early 1970s saw rising demands by OPEC member states to increase their share of oil revenues vis-à-vis oil corporations, along with their participation as shareholders in oil production activities—allowing them to engage in the oil trade business without any corporate intermediation.

[23] "Correspondance du Délégué Général à l'Energie au Ministre de l'Economie et des Finances," February 22, 1974, 19830369/1, Minutier du délégué général à l'énergie, 1973-Juin 1974, Archives Nationales de France, Pierrefitte-sur-Seine, France.

Indeed, in January 1974, the U.K. was facing ominous economic prospects: yearly inflation had risen by a third and reached 10%, and tight global supplies had created physical oil shortages. These, in turn, led to the collapse of manufacturing output, which fell by over 20% compared to pre-October levels. And the oil price shock risked costing the U.K. balance of payments an additional billion pounds, exacerbating an ongoing deficit that threatened the pound sterling with a devaluation. Moreover, Conservative Prime Minister Edward Heath's anti-inflationary policies had aroused the anger of the National Union of Mineworkers, which launched massive industrial action, a ban on overtime work, and threatened to strike. This, in turn, led to a fall in coal deliveries to power stations, which made it impossible to switch power plants from oil to coal—all of which exacerbated Britain's grim economic predicament. As coal stocks declined, most of British industry and commerce had been placed in a three-day workweek in December 1973.[24] By January 1974, the Heath government was increasingly unpopular as it faced an aggressive political onslaught from Labor MPs supportive of the miners' cause. With general elections approaching in February, Edward Heath desperately sought a way to stimulate the economy by ending energy shortages and expanding manufacturing production and exports. In this context, an offer from Iran's Mohammad Reza Shah Pahlavi for a mutually beneficial trade deal appeared as a godsend that could help alleviate Britain's spiraling economic hardships.[25]

[24] "Speaking Notes on UK Economic Situation, Recent Developments and Current Position," January 1974, T 319/2054, Bilateral Oil Deal with Iran, 1974, The National Archives, Kew, United Kingdom; "Effects of Three Day Working Week, Note by DTI," February 6, 1974, T 342/388 Effect of the Energy Crisis, 1974, The National Archives, Kew, United Kingdom.

[25] "Confidential Note from the Chancellor of the Exchequer to the Prime Minister on Middle East Oil and Investment," December 27, 1973, T 319/2054, Bilateral Oil Deal with Iran, 1974, The National Archives, Kew, United Kingdom; "Confidential Note from Mrs J Percy-Davis to Mr Ryrie on the Proposed Oil Deal with Iran," December 28, 1973, T 319/2054, Bilateral Oil Deal with Iran, 1974, The National Archives, Kew, United Kingdom; "Confidential Note of a Meeting Held in Sir Anthony Part's Office on Friday 28 December 1973," December 28, 1973, T 319/2054, Bilateral Oil Deal with Iran, 1974, The National Archives, Kew, United Kingdom.

Across the English Channel, the French government of President Georges Pompidou was not faring much better. France was still affected by the global oil scarcity, and, given France's total dependence on oil imports, the country was particularly hard-hit by the price shock: gasoline prices were expected to rise by 20%, domestic fuel oil prices by 60%, and heavy fuels by a staggering 120% in 1974.[26] But this already precarious situation was further complicated by an unexpected accident: in December 1973, the Algerian gas terminal at Skikda—from which France got 15% of its natural gas supplies—broke down, right amid a cold winter. The situation was particularly dramatic in Southeastern France, whose households and small businesses relied almost exclusively on Algerian gas for heating. Hence, France stood out as the only major economy that had to ration natural gas to consumers (at rates surpassing 50%) all while also facing the litany of troubles generated by the Oil Shock.[27] To make matters even worse, gasoline retailers went on strike to protest the government's price controls, bringing 5,000 gas stations across the country to shut down.[28] This made government officials desperate to find a solution to the dual oil and gas crises that enveloped France: the PEON Commission—the state's advisory body on nuclear matters—discussed a massive deployment of nuclear power reactors; diplomatic envoys were sent to Saudi Arabia, Iran and Kuwait in search of bilateral deals;[29] French oil companies intensified their

[26] "Note pour Monsieur le Premier Ministre," January 8, 1974, 19830369/1, Minutier du délégué général à l'énergie, 1973-Juin 1974, Archives Nationales de France, Pierrefitte-sur-Seine, France.

[27] "Note sur l'approvisionnement de la France au cours des prochains mois," December 28, 1973, 19830369/1, Minutier du délégué général à l'énergie, 1973-Juin 1974, Archives Nationales de France, Pierrefitte-sur-Seine, France; "Note pour Monsieur de Wissocq," January 14, 1974, 19830369/1, Minutier du délégué général à l'énergie, 1973-Juin 1974, Archives Nationales de France, Pierrefitte-sur-Seine, France.

[28] "Call for Oil Price Reduction Is Rejected by Arab States," *The Globe and Mail (1936-2017)*, January 18, 1974.

[29] "Note Verbale," January 10, 1974, 19830369/1, Minutier du délégué général à l'énergie, 1973-Juin 1974, Archives Nationales de France, Pierrefitte-sur-Seine, France; "Note pour Monsieur le Premier Ministre sur la Coopération avec l'Iran, Notamment sur d'Importants Gisements de Gaz Naturel"; "Lettre du DGE au Président de l'ERAP sur les Négociations avec l'Arabie Saoudite," January 25, 1974, 19830369/1, Minutier du délégué général à l'énergie, 1973-Juin 1974, Archives Nationales de France, Pierrefitte-sur-Seine, France.

prospection efforts in the North Sea;[30] state oil company emissaries were sent to Nigeria, Gabon and the Congo[31] in search of new oil and gas supplies;[32] and the government even began considering closer energy relations with the Soviet Union as a preferable alternative to North African gas supplies.[33] And it was with Saudi Arabia that France first successfully negotiated a bilateral oil trade deal, threatening to unleash a scramble for Middle Eastern oil as dreaded by Kissinger.

In early January 1974, France succeeded in negotiating an opaque deal with the Saudi government, securing 3 million tons of oil a year for 3 years, all while continuing negotiations for an additional ten-year contract. British officials were frustrated in their efforts to figure out the precise terms of this agreement—particularly the price paid by France for this oil, and the trade counterparts it had offered. In fact, these bilateral agreements were supposed to address three key challenges: the high oil prices, the scarcity of global supplies, and the worsening trade deficits. To be successful, a bilateral oil deal with an OPEC state had to secure supplies at a rate significantly below the official posted price, and the deal had to operate as a two-way street: the oil-importing country had to offer some export in return, which would both pay for the oil and help redress the nation's current account deficit. It soon became clear that France had agreed to pay 93% of OPEC's posted price—which did not seem like a particularly good bargain.[34] Moreover, British officials

30 "Lettre du Délégué Général de l'Energie au Président d'Elf-ERAP," January 11, 1974, 19830369/1, Minutier du délégué général à l'énergie, 1973-Juin 1974, Archives Nationales de France, Pierrefitte-sur-Seine, France.

31 The Republic of the Congo (also known as Congo-Brazzaville), not the Democratic Republic of Congo which was then known as the Republic of Zaire.

32 "Lettre au Président de l'ERAP," January 25, 1974, 19830369/1, Minutier du délégué général à l'énergie, 1973-Juin 1974, Archives Nationales de France, Pierrefitte-sur-Seine, France.

33 "Note pour Monsieur de Wissocq."

34 "Confidential Note from H S Lee to S W Spain Esq, Department of Energy, on the Proposed Visit to Saudi Arabia," January 15, 1974, T 319/2054, Bilateral Oil Deal with Iran, 1974, The National Archives, Kew, United Kingdom.

were not alone in suspecting that the French-Saudi oil deals were secretly connected to arm sales, particularly of Mirage aircraft—a claim repeatedly denied by the French government.[35] This raised alarms that, in its desperate quest for oil supplies, the French government was ready to pay any price to import oil all while recklessly pushing for the militarization of the Persian Gulf.[36]

In contrast, the British approach to the bilateral deal with Iran remained more cautious. In December 1973, Iranian officials approached several governments—including those of the United Kingdom, Japan, and the Federal Republic of Germany—with a "shopping list" of scarce industrial goods that could be traded for additional oil supplies. These industrial commodities—including steel, tinplate, PVC, nylon, paper, and tires—were in short supply in Britain given the country's declining manufacturing output. However, it was hoped that the deal would feed oil to struggling British factories and allow them to expand production and exports, all while contributing to the Shah's ambitious industrialization plans for Iran.[37] But orchestrating this deal raised a series of challenges for the U.K., both domestically and internationally. The British government had to coordinate the activities of a multitude of firms that would participate in the deal—including the British Steel Corporation, Dunlop, BP Chemicals International, International Synthetic Rubber and the British Paper and Board Makers Association—as it sought to negotiate the best possible commercial terms: selling industrial goods at the highest possible price for the cheapest possible Iranian oil. However, it was the Iranian government that had the real leverage in these negotiations: while British and Iranian diplomats negotiated, officials of the Japanese Minister for International

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[35] "Confidential Note by the Department of Trade and Industry for the Official Committee on Energy Policy, Briefing for Energy Meeting in Washington of 11 February 1974," January 28, 1974, T 319/2054, Bilateral Oil Deal with Iran, 1974, The National Archives, Kew, United Kingdom.

[36] In fact, the linking of arm sales to oil supplies was not limited to Saudi Arabia; France also conditioned the resumption of frozen sales of Gazelle helicopters and Mirage aircraft to Kuwait upon the conclusion of a favorable bilateral oil deal. See "Note Verbale."

[37] "Confidential Note from Mrs J Percy-Davis to Mr Ryrie on the Proposed Oil Deal with Iran."

Trade and Industry were brought to Tehran and given a similar offer. The Iranian government was effectively pitting the U.K. and Japan against each other as these countries urgently sought oil supplies.[38] Meanwhile, British firms would struggle to produce all the goods requested by the Shah: not only was manufacturing output down, but millions of tons of oil were needed to produce these commodities. The division of roles between the British government and the companies also proved contentious: How actively should the British state meddle in these commercial matters? How would the government coordinate these industrial exports and allocate the Iranian oil imports without favoring a company over another? Finally, these firms already had pending orders from local customers that they were not able to meet, so diverting these scarce goods from the domestic market to ship them to the Persian Gulf would likely arouse national outrage.[39]

And yet, the British government had a unique card under its sleeve: while offshore oil had been discovered in the North Sea since 1969, the oil price hike had suddenly made the exploitation of these deposits much more economically attractive. The U.K. was readying itself to launch its own oil production off the coast of Scotland in 1975, so it just needed some immediate relief before its own domestic oil boom kicked in. Hence, the deal would have to be confined to the short-term, providing additional oil supplies for just one year, and the price had to be low enough to be interesting.[40] Any long-term arrangement at high prices could risk fixating the OPEC price hike as the world's new permanent economic reality—a warning repeatedly expressed by Kissinger to the

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[38] "Confidential Note to the Secretary of State on the Mission to Iran," January 2, 1974, T 319/2054, Bilateral Oil Deal with Iran, 1974, The National Archives, Kew, United Kingdom.

[39] Embassy in Tehran to Foreign and Commonwealth Office, "Oil for Commodities Deal," Telegram 140630Z, January 14, 1974, T 319/2054, Bilateral Oil Deal with Iran, 1974, The National Archives, Kew, United Kingdom.

[40] "Secret Note from F R Barratt to Mr H S Lee on the DTI Mission to Iran," January 3, 1974, T 319/2054, Bilateral Oil Deal with Iran, 1974, The National Archives, Kew, United Kingdom; "Confidential Note from J T Cadd to Mr Bailey on the Barter Deal with Iran," January 14, 1974, T 319/2054, Bilateral Oil Deal with Iran, 1974, The National Archives, Kew, United Kingdom.

British embassy in Washington. In fact, Kissinger claimed that oil bilateralism would devastate world trade and international cooperation and would signal the West's surrender before OPEC's blackmail, all of which would create a "point of no return" in the global energy system. Some British diplomats derided Kissinger's words as both arrogant and hypocritical: hadn't he welcomed Saudi Arabia's offer for an exclusive arrangement back in 1972? And how did he dare to tell European governments what they could and could not do in their diplomatic and commercial affairs?[41] And yet, some British officials became increasingly wary of antagonizing the U.S. over what could end up becoming a short-ended bargain with Iran's very confident Shah.

By mid-January 1974, tensions and frustrations began boiling within different U.K. government offices. A Foreign Office delegation to Tehran had returned empty-handed after Iranian Prime Minister Amir-Abbas Hoveyda accused British officials of inflating the prices of their industrial commodities all while they demanded an unacceptable return to lower oil prices; Hoveyda then added that the tonnage of oil offered by Iran would have to be reduced.[42] While this raised some urgency for Prime Minister Heath to conclude the deal before the Iranian government committed oil supplies to other countries,[43] other officials began poignantly questioning the wisdom behind any such deals. Under-Secretary of the Treasury Mary Elizabeth Hedley-Miller, for instance, raised severe criticisms about the way in which different offices had thoughtlessly rushed into these negotiations without considering their broader policy implications: Given the upcoming prospects for domestic oil production, should the U.K. maximize oil supplies at any cost?

[41] Embassy in Washington to Foreign and Commonwealth Office, Telegram 111645Z, January 11, 1974, T 319/2054, Bilateral Oil Deal with Iran, 1974, The National Archives, Kew, United Kingdom.

[42] Embassy in Tehran to Foreign and Commonwealth Office, "Oil for Commodities Deal," January 14, 1974.

[43] "Confidential Briefing for the Prime Minister for a Conversation with the Iranian Prime Minister, Mr. Hoveyda on the Oil for Commodities Deal," January 14, 1974, T 319/2054, Bilateral Oil Deal with Iran, 1974, The National Archives, Kew, United Kingdom.

Wouldn't such deals conflict with Nixon and Kissinger's initiative for consuming-country cooperation?[44] This was followed by growing expressions of concern from the British Treasury about the government's lack of coherence in dealing with OPEC: the U.K. seemed to be trying to ride two horses at the same time—bilateral deals with oil producers, and multilateral cooperation among oil-consuming governments—a seemingly untenable position. There were no clear ground rules for these deals, and the French deal with Saudi Arabia had already shown some deleterious effects—unleashing an escalation of oil prices and a rush for bilateral deals. If the U.S. and West Germany—with their more favorable balance of payments positions—chose to compete along the bilateral path, the U.K. would likely end up as a sore loser. And even more foundational questions were also raised: Did these deals actually serve to further empower OPEC against the West? Did they hinder European unity and cooperation? Should the U.K. follow its narrow self-interest and forget about its allies? Stated more bluntly, "Can we [the British] hope, like the French, to get away with such deals?"[45]

II. The Energy Crisis and the Challenges of International Monetary Reform: The IMF Committee of Twenty Meeting in Rome

Right as British officials began to have a change of heart about oil bilateralism, the U.K. and France found themselves at the crossfires of the first major international summit since the four-fold oil price hike: the IMF Committee of Twenty (C-20) meeting held in Rome in mid-January 1974. The C-20—representing a mix of industrialized economies, OPEC states, and less

[44] "Confidential Note from Mrs M E Hedley-Miller to Mr Bailey on Oil Deals," January 15, 1974, T 319/2054, Bilateral Oil Deal with Iran, 1974, The National Archives, Kew, United Kingdom; "Confidential Note from Mrs M E Hedley-Miller to Mr Barratt, on Oil Bilateral Deals," January 15, 1974, T 319/2054, Bilateral Oil Deal with Iran, 1974, The National Archives, Kew, United Kingdom.

[45] "Confidential Note from C R Ross to the Secretary of State for Energy on Bilateral Deals," January 17, 1974, T 319/2054, Bilateral Oil Deal with Iran, 1974, The National Archives, Kew, United Kingdom.

developed countries (LDCs)—had been set up since July 1972 to oversee the reform of the international monetary system after the collapse of the Bretton Woods order.[46] When it met in Nairobi in September 1973—right before the start of Arab-Israeli hostilities and the ensuing Oil Shock—the C-20 was mainly concerned with two issues: a return to stable but adjustable exchange rates, and addressing the weakness of the dollar. The C-20's interim report had called for a novel financial instrument—Special Drawing Rights or SDRs[47]—to eclipse the dollar and gold as the world's main international reserve assets, but disagreements remained about how to value this new asset in such a way as to give stability to global exchange rates and liquidity to the international monetary system.[48]

The C-20 Summit in Nairobi of September 1973 expressed fears that a massive sale of unwanted dollars could make the world's monetary architecture collapse. Little did they know that, in just the span of a few months, the world would be facing an entirely different set of challenges: the dollar had suddenly become the highly attractive asset that every country wanted to hold on to, and it was now feared that the international payments imbalances resulting from quadrupled oil prices could trigger a global economic catastrophe akin to the Great Depression.[49] A week before the Rome summit, IMF Secretary General Johannes Witteveen spelled some ominous warnings about the state of the global economy: with high oil prices and shortages, and the accompanying

[46] "Report of the Executive Directors on the Reform of the International Monetary System (18 August 1972)," in *The International Monetary Fund, 1972-1978: Cooperation on Trial*, vol. III (Washington, D.C.: International Monetary Fund, 1985).

[47] While Special Drawing Rights had come into existence in January 1970 with a value fixed to the price of gold, the crisis of the dollar and the end of the dollar's convertibility to gold had called for the need to fully reassess the nature and value of the SDR as a financial instrument – a task taken up by the IMF Committee on Reform of the International Monetary System and Related Issues, more commonly known as the Committee of Twenty or C-20.

[48] "Report to the Board of Governors of the International Monetary Fund by the Chairman of the Committee on Reform of the International Monetary System and Related Issues (September 24, 1973)," in *The International Monetary Fund, 1972-1978: Cooperation on Trial*, vol. III (Washington, D.C.: International Monetary Fund, 1985).

[49] "Money Reformers Weigh Means to Meet Oil Crisis," *The New York Times (1923-Current File)*, January 16, 1974.

inflation and balance of payments problems, the world was facing the "worst monetary strains since World War II." Speaking at a World Banking Conference in London, Witteveen expressed a loss of hope about the world's ability to overhaul the international monetary system by the C-20's self-imposed deadline of July 1974, right as he feared the spread of "mutually defeating" nationalistic economic policies reminiscent of the 1930s. Hence, he hoped that the IMF could become both the "forum" and the "catalyst" for the international cooperation and economic coordination needed to overcome the Energy Crisis.[50]

While this might have echoed Kissinger's desires for resolving the Energy Crisis through multilateral cooperation, Witteveen's comments actually threatened the primacy of the Washington Energy Conference—which the Nixon administration wanted to keep as the one and only forum in which the energy crisis would be discussed and resolved. In fact, Kissinger wanted the C-20 to be confined to the monetary sphere for it not to overshadow or eclipse his own U.S.-led initiative, but he could not prevent the inevitable: the Energy Crisis was the order of the day, and it would dominate and monopolize the world's attention in the C-20 summit in Rome.[51] Confronted with this reality, U.S. Secretary the Treasury George Shultz addressed the meeting on January 17th, 1974 expounding the U.S. government's perspective on the crisis, starting with a fierce condemnation of OPEC. For Shultz, global oil supply and demand imbalances were unquestionably real and embedded in long-term trends, and oil producers' aspirations for higher revenues and economic development were also valid. However, the fourfold increase in the price of oil was clearly illegitimate, unreasonable, and unacceptable. He called for OPEC member states to "meet their responsibilities for producing in reasonable amounts without capricious

[50] "Worst Monetary Strains since World War II Are Expected by IMF Chief Due to Oil Crisis," *The Wall Street Journal (1923-Current File)*, January 15, 1974.

[51] "Summary of Decisions from Secretary of State's Staff Meeting."

manipulation of supplies or prices." Behind the complex origins and ramifications of the crisis, Shultz claimed that there was one easy explanation for the world's imminent economic catastrophe: oil prices were artificially high, they were "simply not realistic," and oil consuming countries "will not—and in some cases probably cannot—import such large volumes" at those rates. Hence, his proposed solution to the crisis was equally simplistic: OPEC had to bring the price of oil back down to a more "reasonable" level—or it would have to bear the full guilt and responsibility for bringing the global economy to the brink of collapse. In his own words, "the oil-producing countries have to recognize this simple fact and cooperate with the rest of the world in scaling down the magnitude of the financial problem to manageable proportions."[52]

Shultz went on to expound one of the major ironies behind the price shock: since the start of the embargo, the non-oil-producing less developed countries (LDCs) had been applauding OPEC's every move as a revenge of the post-colonial world against the former colonial masters. And yet, it was these very countries that had the most to lose with the fourfold increase in oil prices: the LDCs' collective oil import bill was set to increase by $10 billion in 1974, swallowing all the development aid they expected to receive from the industrialized world for the same year. At this rate, it would be impossible for the Third World to absorb the price increase without some very heavy borrowing—and many LDCs were already reaching dangerous debt levels. Moreover, advanced economies' deteriorating balance of payments situation would make it more difficult for them to increase foreign aid[53]—leaving the developing world with limited options beyond indebtedness. According to Shultz, it was one thing to "borrow for a promising investment project"

[52] Embassy in Rome to State Department, "Secretary Shultz's Speech to C-20 in Rome," Telegram 011948, January 18, 1974, 1974STATE011948, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration.

[53] As an outflow of capital, giving foreign aid impacts a country's balance of payments negatively—and in the context of the Energy Crisis, it could exacerbate already-ongoing deficits for industrialized economies.

that could generate future revenues, but it was a "far different and dangerous course to borrow large amounts to cover current consumption." Hence, without some major economic aid and financing assistance from oil producers, the price shock was threatening to also unleash a debt crisis across the developing world. And there were even more dangerous consequences of the price shock looming on the horizon for the Third World: the price of oil-derived fertilizers was also set to skyrocket, which could lead to a fall in agricultural output, and with it, to the specter of famines and a global food shortage. This informed another severe tirade from Shultz against OPEC: rather than showcasing their status as the stalwarts of anti-colonialism, OPEC governments risked erasing decades of progress, modernization, and development for the developing world.[54]

But while Shultz sought to exploit the conflicting interests between OPEC and the oil-importing developing world, it was the clashes and tensions between the U.S. and its allies that took the world by surprise. Shultz warned European countries and Japan against any unilateral move that would benefit a single country while hurting the rest:

> No country can take unilateral restrictive trade or monetary measures to benefit some selected section of its economy or its current balance of payments at the cost of others without generating still greater turmoil in world economic relations. […] We must impress upon our national colleagues the dangers of attempting to 'go it alone' in international economic affairs in today's circumstances.[55]

Hence, he warned against any form of trade protectionism, export offensive or competitive devaluation which might pit allies against each other. To be sure, the Great Depression stood out as the key global economic crisis in recent memory—serving as the reference point from which to derive historical lessons. These, however, were not necessarily the most useful. In the context of the oil crisis, a competitive devaluation might boost exports, but it could also backfire by making

[54] Embassy in Rome to State Department, "Secretary Shultz's Speech to C-20 in Rome," January 18, 1974.

[55] Embassy in Rome to State Department.

oil imports even more expensive. Hence, there was no clear agreement as to the best policy response to the oil crisis. For Shultz, however, there remained one obvious bad policy: "going it alone"—which became the code word for any such unilateral move, and especially for engaging bilateral oil deals with OPEC members. Shultz considered that such deals legitimized the oil price hike—hence running against the U.S.'s proposed solution of pressuring OPEC to lower prices—so they had to be constrained by some type of internationally-agreed framework or code of conduct. But the implicit criticism of France, the United Kingdom, and even Japan did not go unnoticed—and these countries resented the U.S.'s call for limiting their commercial freedom and diplomatic sovereignty in dealing with OPEC.

The U.S. was not alone in criticizing France and the U.K. for their bilateral dealings with OPEC. The Federal Republic of Germany backed the U.S. position, with Finance Minister Helmut Schmidt also condemning the "excessively pliant attitude of Britain and France towards oil producers"—right as officials in Bonn called for the West to take a strong united stance against Arab oil producers. With Schmidt's condemnations of France and Britain "going it alone" with their bilateral deals, rumors began spreading that the European Community could even punish Britain by withholding its EEC regional development funds until it accepted the U.S.-aligned German stance on relations with OPEC. These threats also elicited outrage from Arab governments from Iraq and Libya to Saudi Arabia.[56]

For British officials, however, these German threats reeked of hypocrisy: West Germany had welcomed Iran's offer for an oil-for-industrial commodities deal—the same that the U.K. was

[56] "Arabs Turn Down Request for Cut in World Oil Price," *The Gazette (1857-2010)*, January 18, 1974; "Call for Oil Price Reduction Is Rejected by Arab States"; "U.S., West Germany May Delay Monetary Reform until Oil Prices Fall," *The Irish Times (1921-Current File)*, January 18, 1974.

negotiating—but it had faced trouble organizing its corporate sector to meet Iran's shopping list.[57] Also, while Bonn denied being involved in any oil-for-arms deals in the gulf, rumors spread that it had offered patrol boats and Leopard tanks to Iran—which competed with the U.K.'s prospective sales of Chieftain tanks. And other potential arrangements with Iran were also under consideration, such as building a German refinery in the Gulf in exchange for oil supplies.[58] As reported by the U.K. Treasury's Paymaster General to the Chancellor of the Exchequer:

> The Chancellor should be aware in this context that the Germans are not wholly innocent of bilateral intentions themselves. They have for some time been in negotiation with Iran about the same sort of deal which we have also been discussing with the Shah. There have also recently been rumours of a possible oil deal with Algeria. It may be that when Herr Schmidt spoke so forcefully in Rome, he was not aware of the extent to which his Government was itself involved in this sort of transaction.[59]

Ironically, when Schmidt was launching his tirades against France and the U.K., German officials were holding secret meetings in Switzerland with Iranian Minister of the Economy Hushang Ansary. And even during the Rome summit, German Foreign Minister Walter Scheel was meeting none other than Saudi Oil Minister Ahmed Zaki Yamani himself in Bonn![60]

So, what stood behind these clashes and mutual public condemnations among Western allies? Contemporary analysts understood that the C-20 meeting had showcased two conflicting visions of the West's future relations with OPEC. On the one hand, Shultz and Schmidt implied

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[57] Embassy in Tehran to Foreign and Commonwealth Office, "German Bilateral Deals with Oil Producers," Telegram 250900Z, January 25, 1974, T 319/2054, Bilateral Oil Deal with Iran, 1974, The National Archives, Kew, United Kingdom.

[58] Embassy in Bonn to Foreign and Commonwealth Office, "German Bilateral Deals with Oil Producers," Telegram 231725Z, January 23, 1974, T 319/2054, Bilateral Oil Deal with Iran, 1974, The National Archives, Kew, United Kingdom.

[59] "Confidential Note from F R Barratt to the Principal Private Secretary on the Visit of Herr Schmidt: Oil and Energy," January 25, 1974, T 319/2054, Bilateral Oil Deal with Iran, 1974, The National Archives, Kew, United Kingdom.

[60] "Germans Offer Help in Return for Oil," *The Gazette (1857-2010)*, January 18, 1974; Embassy in Bonn to Foreign and Commonwealth Office, "German Bilateral Deals with Oil Producers," January 23, 1974.

that the best way to persuade oil producers to lower prices was to let an economic crisis unfold. For instance, if OPEC-allied LDCs experienced serious difficulties, they could push for a policy change; and if any major industrialized economy went into a recession, this could also repercuss back on OPEC revenues and provoke a change of course. They thus hoped that if the threat of international economic and monetary chaos became sufficiently credible, OPEC members would understand that the price was unsustainable and bring it back down. And indeed, this approach seemed safe for both the U.S. and West Germany: the U.S. was expecting improvements in its balance of payments and inflows of capital from oil producers, while Germany had accumulated trade surpluses and reaped the benefits of its powerful industrial export sector and the massive foreign exchange reserves it generated. Hence, if there were to be a major recession in an industrialized economy, the likely candidates were the United Kingdom, France, Italy, or Japan—all of which had already slid into deficits and risked experiencing recessions in 1974. But this also meant that the aforementioned countries could not afford to play tough with OPEC: no government wanted to have its economy—and electorate—sacrificed in the name of "oil-consumer solidarity." From their point of view, the selfish government was not the one who negotiated to protect its citizens, but the one in a more favorable economic position that was willing to patiently wait for an ally to drown. With no visible moves from the U.S. or Germany to allow for capital outflows into countries experiencing deficits, France and the United Kingdom had limited options beyond seeking lifelines from OPEC members through bilateral arrangements.[61]

The financing of oil-derived deficits thus became the last major thorny issue that sowed divisions during the C-20 summit in Rome—pitting the U.S. and West Germany against the rest.

[61] Frances Cairncross, "A Fundamentally Political Meeting," *The Guardian (1959-2003)*, January 19, 1974; "Oil Cooperation Stressed in I.M.F.," *The New York Times (1923-Current File)*, January 19, 1974; "U.S., West Germany May Delay Monetary Reform until Oil Prices Fall"; Andrew Shonfield, "Dangers of Going It Alone," *The Observer (1791-2003)*, January 27, 1974.

When he spoke to international bankers in London about the looming economic catastrophe, IMF Secretary General Johannes Witteveen proposed a potential solution to the balance of payments problem: given that the collective trade deficits incurred by oil-consuming countries would be mirrored as surpluses for OPEC members, these excess oil revenues could be lent back by OPEC to oil-consuming states. In fact, as governments could cover trade deficits either by tapping on dwindling currency reserves or by borrowing abroad, OPEC member states could provide a financial lifeline to the oil-consuming world in the form of loans. OPEC economies were unlikely to absorb the majority of these surpluses—neither as imports nor through development projects—so they were expected to place their excess revenues abroad as financial investments. However, if the market was left to its own device, these financial flows would not go to the countries that needed them the most, but to those giving the safest and most attractive returns on investment. Hence, the IMF could step in to provide a more equitable distribution of these OPEC loans by serving as a "clearing house" for these financial transactions: OPEC states could place their revenues in a special IMF Oil Facility, which would in turn loan the funds to struggling economies according to their monetary needs and in line with their oil-derived deficits.[62]

Arab Gulf states, however, had been vocal for months against any type of international tutelage over their petrofunds. Back in November 1973, Abdlatif Al-Hamad, Director General of the Kuwait Fund for Arab Economic Development, had warned European audiences against asking oil producers to "conduct some kind of international public service by overlooking their interests." He dismissed the West's alarms about the impact of high oil prices on the global economy as a

[62] "Worst Monetary Strains since World War II Are Expected by IMF Chief Due to Oil Crisis"; "Johannes Witteveen Sees 'Staggering' Problems in Payments," *The Washington Post (1877-1997)*, January 16, 1974; Cairncross, "A Fundamentally Political Meeting"; Embassy in Rome to State Department, "Meeting of OECD Working Party Three," Telegram 00763, January 18, 1974, 1974ROME00763, Central Foreign Policy Files, 1973-79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration.

"primarily politically motivated" means of turning Arab funds into the "'villains' of the story." Instead, he claimed that the Western world's monetary troubles were of their own making: high inflation, currency crises, and monetary problems predated the oil shock—in fact, it was Western inflation that had consistently pushed OPEC to raise prices as to preserve the value of its financial reserves. Western prejudice, however, had suddenly framed OPEC—and especially its Arab members—as the main culprits for the world's economic woes. He thus categorically rejected any plans to turn Arab states into mere "money lenders to the world," and much less so under any "exorbitant and […] unbearable tutelage." This dimmed the prospects for OPEC states to give the IMF any special role in managing and lending their currency reserves.[63]

And yet, the oil price shock had dramatically raised the urgency of finding an adequate mechanism to intermediate oil payments between OPEC and the rest of the world. This turned Witteveen's proposal for an IMF Oil Facility—and the mechanism that would later be known as petrodollar recycling—into a focal point of interest for the C-20. And in fact, given the committee's intention of replacing the U.S. dollar with Special Drawing Rights as the new international reserve asset, the IMF Oil Facility could actually serve to place the SDR at the center of the international monetary system. Countries argued on how to best value the SDR as a basket of world currencies with a competitive interest rate—all while keeping it stable. For instance, rather than being grounded on gold or dollars, the SDR could be based on the average value of the 14 currencies representing at least 1% of world trade, including some OPEC currencies. This could herald a new world of multinational cooperation and multipolarity. And on the flipside, if the U.S. dollar lost its place as the main international reserve asset, this could also mean an American loss

[63] Abd al-Latif Yusuf Al-Hamad, "Arab Funds and International Economic Cooperation" (Kuwait: Kuwait Fund for Arab Economic Development, November 20, 1973), Gulf Microfiche Collection, Arab World Documentation Center, University of Exeter, Exeter, United Kingdom.

dominance over the capitalist world and its post-war economic institutions. Of course, the IMF would have no way of forcing OPEC member states to place their surpluses in this facility—Kuwait and Saudi Arabia, for instance, had already made it clear that they would not accept any orders on how to use their petrodollars—which meant that the SDR had to become an attractive asset with a high-enough interest yield to compete with those of banks and financial markets.[64]

But this mode of international cooperation ran contrary to the Nixon administration's desire to recover its claim to global leadership: if anything, it could signal the capitulation of the U.S. before the forces that had progressively stripped it of its uncontested power—from the defeat in Vietnam and the Watergate scandal, to the collapse of Bretton Woods and the Arab oil embargo. Again, Shultz repeated his familiar tune: the only solution to the oil crisis was for OPEC to lower oil prices. Anything else would legitimize the price hike—and OPEC's blackmail—as a new economic reality. An IMF Oil Facility—even if it might relieve struggling economies rich and poor from monetary pressures—might entail an OPEC victory.[65] Furthermore, Shultz claimed that this Oil Facility exceeded IMF responsibilities, as it would involve the fund in long-term international lending rather than facilitating currency stabilization—if anything, using loans to pay for oil expenses would amount to "borrowing to pay grocery bills."[66]

Instead, Shultz bet on the power of the market: no new mechanism was needed, as private banks and financial institutions should be able to take care of these transactions on their own—not

[64] "Good Intentions Oil-Stained," *The Guardian (1959-2003)*, January 16, 1974; "Smaller Role for Dollar, Gold in New I.M.F. System," *The Irish Times (1921-Current File)*, January 16, 1974; "Political Group Planned in Fund Structure," *The Washington Post (1877-1997)*, January 16, 1974; "How Will World Pay for Oil?," *The Christian Science Monitor (1908-Current Issue)*, January 17, 1974; "'Twenty' No Closer to Sharing Costs of Oil Deficit," *The Guardian (1959-2003)*, January 17, 1974.

[65] Embassy in Rome to State Department, "Secretary Shultz Press Background at C-20 Meeting," Telegram 00750, January 17, 1974, 1974ROME00750, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration.

[66] "Americans Will Have to Pay for Oil Independence, Shultz Warns," *Los Angeles Times (1886-1989)*, January 22, 1974.

in SDRs, but in U.S dollars.[67] But even then, contemporary observers understood the less selfless interests that lay behind these remarks: it was known that, if let to the market, most petrodollars would flow into a few financial centers such as New York, London and Zurich—and the U.S. stood to gain from these capital inflows. And if countries were to borrow to pay for oil, they could very well borrow from Wall Street—not the IMF. It was also clear that the U.S. government would not accept this potential attempt to eclipse the dollar without a fight—especially when the currency was rapidly recovering its value.[68]

The C-20 summit ended in a stalemate: it tabled discussions on the IMF Oil Facility and provided little in terms of immediate next steps besides an agreement to meet again. In fact, the final communique—while enumerating the long list of monetary problems raised by the OPEC price shock—provided no concrete solutions. There were agreements in principle for valuating SDRs as a currency basket, and on the need to reform the IMF's structure by adding a new permanent committee of governors, but no rules or conditions were set on any significant issue. There was no agreement on mechanisms for currency stabilization, or on the balance of payments question, or on the prospects of LDC debt, besides the agreement that all these issues were very problematic and had to be urgently addressed. It seemed as if a storm was looming, and the international community could do little but to brace itself for monetary and economic wreckage as the effects if the OPEC Price Shock began setting in.[69]

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[67] Embassy in Rome to State Department, "Secretary Shultz Press Background at C-20 Meeting," January 17, 1974.

[68] "New Setback for Money Reforms: I.M.F. Split on Oil Issue," *The Irish Times (1921-Current File)*, January 19, 1974; "Finance Ministers Take Interim Step in Replacing Gold," *The Washington Post (1877-1997)*, January 19, 1974; "Oil, Gold, the Dollar," *The Washington Post (1877-1997)*, January 20, 1974; Ronald Anderson, "The Money Tree," *The Globe and Mail (1936-2017)*, January 24, 1974.

[69] "Communique of the Committee of Twenty, January 18, 1974," in *The International Monetary Fund, 1972-1978: Cooperation on Trial*, vol. III (Washington, D.C.: International Monetary Fund, 1985).

In the face of this international institutional paralysis, the French government signaled that it could no longer wait for world leaders to solve the crisis, and the country would continue "going it alone." In an unprecedented move, France floated the Franc on January 19th, 1974, removing itself from the first attempt at European monetary integration which it had played a foundational role in creating and designing.[70] In fact, after the breakdown of the Bretton Woods system in 1971, the European Economic Community had sought to move into a closer economic and monetary union by pegging all European currencies against each other all while allowing each individual currency to fluctuate against the dollar within the bounds of a single currency band—a system known as the "Snake in the Tunnel."[71] Given the build-up of trade deficits, the French Central Bank was facing a difficult choice: safeguarding European integration by tapping on its foreign exchange reserves to prevent the Franc from depreciating below the bounds set by the "tunnel," or protecting its dollar reserves, which were urgently needed to pay for the skyrocketing oil bill, by allowing the Franc to float freely. The French council of ministers' choice to float the Franc and allow a 4% depreciation signaled where priorities lay: the French economy would not be sacrificed for the sake of international—or even European—cooperation.[72]

[70] Embassy in Paris to State Department, "France Floats the Franc," Telegram 01654, January 19, 1974, 1974PARIS01654, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration, https://aad.archives.gov/aad/createpdf?rid=13315&dt=2474&dl=1345.

[71] Since 1970, the so-called Werner Report drawn by the European Council set out a process to achieve a closer economic and monetary union for the European Economic Community. This plan was never fully implemented, especially after the end of the dollar's convertibility to gold. The Smithsonian Agreement of December 1971 led to a devaluation of the dollar by 8.6%, and participating European currencies agreed to limit their fluctuation against the dollar to ±2.25%. In April 1972, EEC Central Bank Governors reached the "Basel Agreement" creating the "Snake in the Tunnel," a system in which European currencies could fluctuate (like a "snake") against the dollar within the limits of ± 2.25% ("the tunnel"). This signaled the first European attempt at monetary integration, pegging the currencies of the 9 participating countries into a single band (France, Germany, Italy, Luxembourg, Netherlands. Denmark, Norway, United Kingdom), all while effectively ending bringing the Sterling area to an end. See Angelos Delivorias, "A History of European Monetary Integration" (Briefing to the European Parliament, March 2015), PE 551.325, Members' Research Service, European Parliamentary Research Service (EPRS), European Parliament, https://www.europarl.europa.eu/RegData/etudes/BRIE/2015/551325/EPRS_BRI%282015%29551325_EN.pdf.

[72] In a fixed regime, central banks keep exchange rates stable by intervening in currency markets (buying and selling currency) in order to keep the "market price" of the national currency fixed or within some set limits (in this case, a

This French move unleashed a wave of outrage and concern across European capitals, from Bonn to Brussels—as well as among the former African colonies that pegged their currencies to the Franc.[73] France seemed to have taken one of those "mutually defeating" nationalistic policies that Witteveen had warned against, and in people's minds—from journalists and politicians to bankers and industrialists—the depreciation of the Franc echoed the competitive devaluations that had set the world economy into a downward spiral during the Great Depression. But even Shultz and Schmidt admitted that France had limited choices: Shultz called the French move "realistic"—defending countries' right to responsibly float their currencies[74]—while Schmidt claimed he understood the logic behind this choice, even if it ran against the tide of "European progress."[75] But, however justifiable it was, the French move left "Europe in disarray," as the *Washington Post*

currency band). In fixed regimes, the accumulation of balance of payments deficit leads to a decline in foreign exchange reserves, which may make central bank interventions difficult or impossible, leading to potentially traumatic devaluations. In contrast, in a floating regime, the exchange rate is set by the market—that is, the supply and demand of a given currency vs. another—which relieves the exchange rate from balance of payments pressures. During the mid-1970s, most states feared the unfamiliarity of floating exchange rates: fixed exchange rates had facilitated international trade, giving long-term visibility to international commerce. Hence, the IMF C-20 had been working towards a return to fixed and stable exchange rates. However, the oil-derived balance of payments pressures made a return to fixed exchange rates more difficult, and floating regimes increasingly more attractive. For more background on exchange rate regimes, see Theo Eicher, John H. Mutti, and Michelle H. Turnovsky, *International Economics* (Routledge, 2009), ch. 12-13.

[73] Embassy in Bonn to State Department, "German Reaction to French Franc Float," Telegram 01061, January 21, 1974, 1974BONN01061, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration; Embassy in Brussels to State Department, "Belgian Reaction to French Float," Telegram 00365, January 21, 1974, 1974BRUSSE00365, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration; Embassy in Luxembourg to State Department, "Prime Minister Werner's Reaction to Float of French Franc," Telegram 00041, January 21, 1974, 1974LUXEMB00041, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration; Embassy in The Hague to State Department, "Floating of French Franc," Telegram 00333, January 21, 1974, 1974THEHA00333, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration; Embassy in Yaounde to State Department, "Cameroon Finance Minister Discusses Franc Float," Telegram 00510, February 20, 1974, 1974YAOUND00510, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration.

[74] "Shultz Calls Franc Float Realistic Act," *The Washington Post (1877-1997)*, January 22, 1974.

[75] Embassy in Bonn to State Department, "German Reaction to French Franc Float," January 21, 1974.

put it, dealing a serious blow to the European Common Market, the continent's political unity, and its prospects for economic and monetary integration. Observers began wondering if the European project itself could survive—all of which only gave even more ominous outlooks for the upcoming Washington Energy Conference.[76]

III. The Washington Energy Conference: The Kissinger-Jobert Showdown and the Cracks in the Atlantic Alliance

Back in Washington, Kissinger fumed against what he called "the weakness and cowardice of the governments we're dealing with"—most notably France, the United Kingdom and Japan, which remained reticent to take a confrontational stance against OPEC and continued seeking bilateral arrangements with oil producers. Kissinger decried these countries' determination to "commit suicide" by engaging in trade deals at unreasonable oil prices that would "exhaust their [foreign exchange] reserves in two or three years."[77] National Security Council officials also joined him in claiming that what might appear as a right decision for an individual country could easily be detrimental to the international community as a whole.[78] The Secretary of State insisted on multilateralism as the only viable path forward to uphold the collective interests of the so-called Free World. But, facing an uphill battle to check the behavior of his European and Japanese allies, Kissinger's frustrations grew into increasingly aggressive threats:

> The participants [in the Washington Energy Conference] should have no doubt that if it isn't going to be multilateral, we're going to go our own way; and let's see who's going to

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[76] "Europe in Disarray," *The Washington Post (1877-1997)*, January 27, 1974; Shonfield, "Dangers of Going It Alone."

[77] "Minutes of the Secretary of State's Staff Meeting," January 31, 1974, *FRUS*, Vol. XXXVI, Doc. 293, https://history.state.gov/historicaldocuments/frus1969-76v36/d293.

[78] "FRUS, Vol. XXXVI," Doc. 286.

> win a bilateral contest. It would be a disaster for everybody, but at least—I mean they cannot have us tied to a multilateral arrangement while they each go their bilateral way.[79]

The U.S. would not remain forever alone in playing by multilateral rules while other countries moved forward with their narrowly selfish dealings. And if forced to compete, given the sheer size of its economy, the U.S. would certainly outmaneuver all its allies in seeking the best possible bilateral terms from OPEC.

To his great relief, Kissinger had found in the Federal Republic of Germany his main partner to forge Western unity against OPEC. If he could also convince the leaders of Britain, Japan, and France to fall in line, the Washington Energy Conference could potentially succeed in stopping OPEC's alleged bullying, blackmail, and revolutionary ambitions. In a meeting with German Minister Egon Bahr—the reputed architect of Chancellor Willy Brandt's Östpolitik—Kissinger explained the United States' initiative in moral terms: "We take the lead, not because of any egotism on our part, but because we realize what the impact would be if friendly nations around us were to collapse."[80] For West Germany, this prospect certainly raised concerns about Cold War geopolitical vulnerability, especially given that it stood at the frontlines of the East-West divide—with the Iron Curtain and a divided Berlin. German diplomats in turn acknowledged that only the United States and the Soviet Union were powerful and resource-rich enough to sustain their economies in the long run without an oil-price rollback: even with its reputed export sector and its large foreign exchange reserves, energy autarky was not an option for Germany, and its economy might not be able to sustain high growth in the long run.[81]

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79 "FRUS, Vol. XXXVI," Doc. 293.

80 "Memorandum of Conversation: Energy," February 1, 1974, *FRUS*, Vol. XXXVI, Doc. 295.

81 "Memorandum of Conversation: Energy."

But while agreeing with Kissinger on the origins of the crisis—excessively high oil prices—German officials also were adamant about being dragged into a diplomatic showdown with OPEC. Indeed, even the most supportive German officials feared that a show of Western solidarity in Washington would be interpreted as an attempt to form a new organization to strike back against OPEC—setting the scene for a global showdown pitting oil consuming and producing countries against each other, right when OPEC exuded confidence and Western governments were in a state of panic. The governments of Japan and France also repeated these concerns, and Kissinger tried to reassure his German partners by claiming: "This is not a confrontation with the producers. We are trying to bring about constructive efforts which will benefit all."[82] He complained that he was tired of repeating "hundreds of times" to Japanese officials that the Energy Conference was not an attempt to form a united bloc against OPEC, all while the French delegation continued holding off from accepting Nixon's invitation to Washington for fears of derailing its ongoing negotiations with oil producing states. Eventually, Kissinger's reassurances managed to bring the Japanese government cautiously on board with the Conference, but France remained harder to convince: German diplomats complained that French officials had not even been able to agree on a common European energy policy—which made their cooperation on the broader world stage even harder to envision. Kissinger and Bahr agreed that the French stance was not only doomed to fail, but it was dangerous enough to drag the world into a major monetary crisis. Their only hope was to push President Georges Pompidou and his Foreign Minister Michel Jobert into understanding that they had no real alternative beyond falling in line with the rest of their allies.[83]

[82] "Memorandum of Conversation: Energy."

[83] "Memorandum of Conversation: Energy."

Fortunately for Washington and Bonn, the British government was also experiencing change of heart vis-à-vis oil bilateralism, which Kissinger hoped could also put a check on France. While the United Kingdom had successfully managed to sign its oil agreement with Iran by the end of January 1974, the Heath government had expressed reticence to engage in any additional deals.[84] In fact, British officials acknowledged that the Shah had maintained the upper hand all throughout the negotiations, which left them in an uncomfortable position: the U.K. had been simultaneously outmaneuvered by Iran and criticized by the U.S. and Germany. Officials from the British Department of Trade and Industry feared being attacked for the deal in the Washington Energy Conference and suggested that the British delegation should distance itself from France's more uncompromising position: they should certainly defend the British deal with Iran—which was negotiated significantly below market prices, and thus had not contributed to a price increase—but they should focus their efforts on deescalating tensions with the U.S. and Germany by signaling their desire to halt, at least temporarily, their quest for additional oil contracts.[85] To this end, British officials were open to an agreement that would set rules for the conduct bilateral negotiations with OPEC—a change in attitude that found receptive ears in Washington and Bonn. Kissinger was elated to see the British government acknowledging the limits of oil bilateralism,[86]

[84] "Confidential Note from P Mountfield to Mr. Harrop and Mr. Pliatzky on Anglo-Iranian Oil Deals," January 24, 1974, T 319/2054, Bilateral Oil Deal with Iran, 1974, The National Archives, Kew, United Kingdom; "Confidential Note from CJA Chivers to Mr Barratt on Bilateral Oil Deals," January 25, 1974, T 319/2054, Bilateral Oil Deal with Iran, 1974, The National Archives, Kew, United Kingdom.

[85] "Confidential Note by the Department of Trade and Industry for the Official Committee on Energy Policy, Briefing for Energy Meeting in Washington of 11 February 1974."

[86] "Memorandum of Conversation: Energy."

and Schmidt softened his stance on oil deals hoping that, if they came to be properly regulated, they could fit into broader internationally cooperative frameworks between OPEC and the West.[87]

And yet, Kissinger's attempts to bring his allies together were tainted by duplicity. While he repeatedly reassured them that the summit was meant to be conciliatory and non-confrontational towards OPEC, his private communications revealed quite the opposite:

> We have said it a hundred times and it's bull…—excuse me for using that language. It is, of course, designed to create a united front. That's the only purpose of a consumer meeting. And we can waffle around this and we can say elegant things. And, of course, we should say it—but, for God Sakes […] let's not kid ourselves. The purpose is to create a consumer group that improves the bargaining position of the consumers.[88]

The German, French and Japanese governments' fears were indeed justified: The Conference had always been supposed to set the groundwork for a counteroffensive against OPEC. But Kissinger showed no qualms about his dishonesty given the stakes at hand: the world was facing nothing short of a "revolution in international finance, in international economics," and the U.S. had the duty and responsibility to protect the structure of the international system by any means necessary.[89] In this context, two main culprits stood out: Saudi Oil Minister Ahmed Zaki Yamani, and Iranian Shah Mohammad Reza Pahlavi. Ironically, the "Twin Pillars" of Nixon's anti-Soviet strategy for the Middle East were guilty of setting the world economy in revolutionary flames. Speaking of Saudi Arabia, he claimed there was "no reason why seven million Bedouins should dictate to the industrialized world on a matter of such vital importance." For the Shah, "the only world statesman in the area," the betrayal went event deeper, as he continued to portray himself as

[87] "Confidential Note from D J Mitchell to the Principal Private Secretary on the Visit of Herr Schmidt, Tuesday 29 January on Bilateral Deals, Especially UK/Iran," January 28, 1974, T 319/2054, Bilateral Oil Deal with Iran, 1974, The National Archives, Kew, United Kingdom.

[88] "FRUS, Vol. XXXVI," Doc. 293.

[89] "FRUS, Vol. XXXVI."

the defender U.S. interests in the Gulf while pushing oil prices higher and higher.[90] Such visceral denunciations of his Persian Gulf partners illustrated the sense of powerlessness that had overtaken Kissinger as he sought to fend-off OPEC's onslaught.[91] And this impotence also colored relations with the industrialized world, where American dominance had also been slipping: Kissinger lamented the way in which Europe and Japan had turned their backs on the U.S. since the 1960s—seeking political autonomy and commercial ascendency at the U.S.'s expense.[92]

Nevertheless, Kissinger also understood the Energy Crisis as a unique opportunity to reassert America's global supremacy: successful statecraft could simultaneously quench Iran and Saudi Arabia's rebelliousness, recover the Third World's sympathy, and reassert U.S. political and economic power over Western Europe and Japan. Contrary to what Project Independence had evoked, American leadership would be derived not from isolationism and energy self-sufficiency, but by upholding a world order whose rules were set and managed by the United States. This would be a world of "fair" oil prices—which would save the Third World from crippling debt—and in which Western Europe and Japan's commercial and diplomatic hands would be tied by U.S.-sponsored, multilaterally-agreed rules.[93] By using the Washington Energy Conference to showcase unity in the industrialized world—with the United States at its helm—Kissinger could go on to lead a diplomatic confrontation with OPEC that would humble Saudi Arabia and Iran, all while simultaneously making the case for the U.S.'s moral authority as the defender of the oil-deprived developing world against OPEC's excessive greed.

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[90] "Memorandum of Conversation: Energy."

[91] "Memorandum of Conversation: Energy."

[92] "Memorandum of Conversation: Energy Conference," February 6, 1974, *FRUS*, Vol. XXXVI (Government Printing Office, Doc. 305).

[93] "Memorandum of Conversation: Energy Conference."

But these privately held positions confirmed the French government's misgivings about the Washington Energy Conference. Jobert explained his reticence to attend the summit by denouncing its three fundamental flaws: first, despite Kissinger's repeated claims to the contrary, the conference was meant to create a confrontation with OPEC; second, it excluded OPEC and the LDCs, which was both counterproductive and reflected the United States' global loss of diplomatic leverage; and finally, it could serve as a trojan horse for a return of U.S. political and economic domination that would infringe upon European states' sovereignty. And in all these dimensions, France stood to lose: the French government understood its negotiations with oil producers to be advancing fruitfully, and it refused to lose the leverage it had earned among oil producers and the freedom to maneuver with them as it saw fit.[94] Jobert's eventual acceptance of Nixon's invitation to Washington thus raised alarms, leading Deputy Assistant for National Security Affairs Brent Scowcroft to doubt the conference's prospects: either West Germany and Britain would break with France and side with the U.S.—dealing a blow to the European Community—or they would side with France—harming the Atlantic Alliance.[95]

In this climate of uncertainty, the Washington Energy Conference began on February 11th, 1974, bringing together representatives from the United States, Canada, Japan, Norway, and the nine members of the European Common Market. As the first major international conference chaired by Kissinger,[96] it was expected to be a one-man performance for him to showcase the need for American leadership in managing the world's growing interdependence. With great trepidation,

[94] "Paper Prepared in the Office of Economic Research, Central Intelligence Agency, 'A Briefing Book for the Washington Energy Conference,'" February 4, 1974, *FRUS*, Vol. XXXVI, Doc. 299; "Kissinger Offers 7-Point Program on World Energy," *The New York Times (1923-Current File)*, February 12, 1974.

[95] "Telegram from the President's Deputy Assistant for National Security Affairs (Scowcroft) to Secretary of State Kissinger in Panama," February 7, 1974, *FRUS*, Vol. XXXVI, Doc. 306.

[96] "Clash of Strategies Makes Kissinger Diplomatic Victor," *The Washington Post (1877-1997)*, February 15, 1974.

observers understood that the conference was about more than just energy: it was about the global monetary order, the relations between rich countries and poor countries, and about whether the United States and Europe would act as partners or rivals on the world stage.[97] Meanwhile, Arab officials reacted with outrage, with government officials, radio stations and newspapers across Libya, Algeria, Kuwait and Saudi Arabia decrying the meeting as an act of aggression against the Arab and Islamic worlds.[98]

Kissinger inaugurated the summit by explaining his views on the crisis and unveiling his seven-point program for resolving it. While the global outlook was dire, Kissinger claimed that the situation remained manageable multilaterally, and it was just a "matter of enlightened self-interest—and moral responsibility—to collaborate in the survival and restoration of the economic system." To this end, the world's largest capitalist economies had to come together and cooperate in seven areas: energy conservation, the development of alternative energy sources, energy research and development, emergency sharing of energy supplies, financial cooperation to restore international monetary stability, aid to the developing world, and building a cooperative framework in oil consumer-producer relations. Most of these elements evoked the Energy Action Group from his Pilgrims' speech, but this time around, they were presented as America's generous offer to share Nixon's Project Independence with the world at large. Some of points uncontroversial: reducing the consumption of non-renewable resources and maintaining aid to developing countries were certainly logical and ethical. Others were thornier, such as international

[97] "The Energy Conference," *The Washington Post (1877-1997)*, February 10, 1974; "World Hungry for Oil Faces Economic War," *Los Angeles Times (1886-1989)*, February 11, 1974; "U.S. Conference--on More than Energy," *The Christian Science Monitor (1908-Current Issue)*, February 11, 1974.

[98] "Arabs Hit U.S. Energy Conference," *The Washington Post (1877-1997)*, February 11, 1974; "OPEC Criticizes Washington Talks, Warns against Confrontation," *The Globe and Mail (1936-2017)*, February 12, 1974.

monetary reform and the management of petrodollars. But in Washington, consumer-producer relations took the center stage.[99]

While Kissinger started off by claiming that a cooperative framework was needed to prevent the "coercion of the weak by the strong as of the strong by the weak," he once again mentioned that OPEC was guilty of artificially creating "excessively high prices," which had to be brought back a "just" level that would ensure long-term stability in political and economic relations. To this end, he called for the creation of a "coordinating group," which could serve as the forerunner to a new international institution that would break new ground in global energy management by bringing together oil-consuming states. No matter how much these terms were shrouded under the language of international solidarity and cooperation, they still evoked the formation of an oil-consumer cartel to fend off OPEC. Kissinger also went on to signal that the Energy Crisis represented the "birth pains of our global interdependence"—or the process that would later be known as Globalization—which could only be managed through international concerted actions. It was thus futile for any country to seek a national solution to a problem that straddled national borders at such a scale. Hence, he veiledly threatened France: "We confront a fundamental decision. Will we consume ourselves in nationalistic rivalry which the realities of interdependence make suicidal? Or will we acknowledge our interdependence and shape cooperative solutions?" This, combined with the proposal of a code of conduct that would regulate bilateral deals with oil-producing states, was enough to arouse Michel Jobert's fiery indignation.[100]

Jobert went on to steal Kissinger's spotlight, and the Conference degenerated into a public showdown between the French Foreign Minister and American Secretary of State. Jobert lashed

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[99] "Excerpts from the Opening Address by Secretary Kissinger at the International Oil Meeting in Washington," *The New York Times (1923-Current File)*, February 12, 1974.

[100] "Excerpts from the Opening Address by Secretary Kissinger at the International Oil Meeting in Washington."

out at Kissinger's desire to "speak for others" in order to "impose a new world energy order"—fashioning himself as a champion of OPEC and the developing world in Washington. He thus announced that France would retain its independence from the United States.[101] After openly questioning Kissinger's motives in calling for the conference—evoking De Gaulle's denunciations of America's hegemonic designs over Europe—he defiantly declared that France would continue freely making bilateral deals with oil-producing countries in general, and with Arab states in particular. But ironically, right as he claimed to stand up for a united Europe, he lashed out at German Finance Minister Helmut Schmidt, who had spoken against having "everybody […] try to save his own hide." Jobert retorted to him: "We don't all have the same hides. Some of us have sleek, shiny hides, others are skinny and worry about tomorrow's food. Let's remember this before making ethical condemnations that have no place in our work here."[102] In the end, Jobert's refusal to agree on any communique based upon U.S. proposals extended the conference into a third day—even after Kissinger held a private hour-long conversation with his French counterpart.[103]

Other delegates were appalled by Jobert's intransigence and unnecessary aggressiveness, accusing the French foreign minister of only having shown up at the conference to derail it. For instance, his claim to speak on behalf of Europe as a whole, stating that "other Europeans were publicly taking one position out of friendship with the United States, but that they privately agree with France," earned him public rebukes from most European delegates. Dutch Foreign Minister Max van der Stoel rebuffed France's actions as senseless, while his British counterpart Sir Alec

[101] "Kissinger Offers 7-Point Program on World Energy"; "Washington Energy Meeting Becomes Michel Jobert's Show," *The Washington Post (1877-1997)*, February 13, 1974.

[102] "Washington Energy Meeting Becomes Michel Jobert's Show."

[103] "Early Clash between France and US at Energy Conference," *The Guardian (1959-2003)*, February 12, 1974; "France Rejects U.S. Plan on Oil," *Newsday*, February 13, 1974; "Kissinger and French Minister Unable to Reconcile Conflicting Positions," *The Globe and Mail (1936-2017)*, February 13, 1974.

Douglas-Home expressed a loss of hope at being able to simultaneously keep the momentum of the conference and protect the image of European unity. German, Dutch, Belgian and British delegates went on to accuse Jobert of threatening the cohesion of the European Economic Community by creating a false and unnecessary dichotomy: that of having to choose between European integration and the Atlantic Alliance. To this, Schmidt retorted that good relations with the United States should not in any way contradict, but actually strengthen the prospects for a united Europe. And beyond the Atlantic, even Japanese Foreign Minister Masayoshi Ohira—who might have been amenable to Jobert's position on bilateral deals—joined the chorus of denunciations of a French attitude that did not allow for any constructive solutions. Even for the Japanese delegation, a code of conduct on bilateral deals was just a matter of good faith, so Jobert's refusal to abide by any rules signaled his readiness to disrupt the international economic order for the sake of narrow nationalist interests.[104]

The Washington Energy Conference thus turned into a confrontation between an isolated France and every other delegation—pitting twelve against one. With Jobert's refusal to accept any rules of behavior for bilateral deals or to acquiesce to any special coordinating group beyond the U.N. or the OECD, the conference lagged into an embarrassing stalemate, showcasing the fracture that had come to plague trans-Atlantic relations in the Energy Crisis.[105] For the Soviet press, this was a unique propaganda moment, as Washington had become "the site of further clashes among Western powers and a defeat in advance for American efforts to forge a common front with her Western partners against the Arab oil embargo." *Pravda* and *Izvestia* both celebrated the economic

[104] "Early Clash between France and US at Energy Conference"; "Washington Energy Meeting Becomes Michel Jobert's Show"; "Oil Accord Thwarted by French," *The Washington Post (1877-1997)*, February 13, 1974; "Kissinger and French Minister Unable to Reconcile Conflicting Positions"; "France Rejects U.S. Plan on Oil"; "Energy Conference Communique Is Delayed as France Widens Rift with Other Delegates," *The Wall Street Journal (1923-Current File)*, February 13, 1974.

[105] "Energy Conference Communique Is Delayed as France Widens Rift with Other Delegates."

and political conflicts plaguing that conference as symptomatic of America's decline as a superpower.[106] Meanwhile, the mood in Paris was triumphant: *Le Monde* proudly sported Jobert's portrait with the headline "Alone," French Prime Minister Pierre Messmer celebrated the international revival of Gaullism and French national pride. In his own words, this was a time to rejoice: "This song being sung about France's isolation—it just makes me feel younger. I feel as if I'm living in Gen. de Gaulle's time again because that song was sung here every morning."[107]

On February 13th, the Conference ended in an uneasy compromise as twelve countries agreed to a full communique while France took exception to several specific clauses—allowing both Kissinger and Jobert to claim victory. Kissinger could celebrate the fact that most of his initial proposals were accepted: participants agreed to cooperate in realms ranging from energy conservation and R&D to the allocation of emergency supplies; national programs to develop new energy sources would be expanded; countries agreed to refrain from counterproductive monetary and financial policies such as competitive devaluations; and perhaps most importantly, a follow-up machinery would be established to coordinate the progress of all of these activities among oil-consuming countries.[108] Moreover, at a moment of division, the overwhelming majority of the delegates had sided with the United States: Jobert's uncooperative attitude might have actually helped other delegations overlook their disagreements with Kissinger. Hence, France stood out as the exception that confirmed the United States' enduring rule over the capitalist West—a situation that was seized by the U.S. press to ridicule Jobert's behavior as a futile parody of long-gone

[106] "Kissinger Offers 7-Point Program on World Energy."

[107] "Washington Energy Meeting Becomes Michel Jobert's Show."

[108] "12 Nations Agree at Energy Parley on Need for Plan," *The New York Times (1923-Current File)*, February 14, 1974; "Text of the Communique of the Washington Energy Conference," *The New York Times (1923-Current File)*, February 14, 1974.

Gaullist *grandeur*.[109] And yet, Jobert also achieved his main objectives: by openly opposing the United States, he was able to save face in his negotiations with OPEC, and by rejecting specific points in the communique—from participating in U.S.-sponsored joint action programs, to refraining from competitive depreciations—he asserted France's political and economic independence. But his greatest victory was perhaps the absence of any code of conduct that would guide oil-importing countries' behavior vis-à-vis OPEC—which kept the way open for France to continue negotiating trade agreements in the Persian Gulf.[110]

The main loser in the summit, in contrast, was the European Economic Community. For Bonn and London, Jobert's demeanor verged on betrayal. An outraged British official expressed that "the French have finally gone too far" with actions that threatened to "turn the European Economic Community (EEC) into shambles." With British general elections approaching on February 28th in the midst of an economic recession and a miners' strike, the opposition Labor Party turned the U.K.'s year-old membership in the EEC into another major electoral issue to challenge Heath's pro-European conservative government. Opposition leader Harold Wilson seized the moment to call for a total reconsideration of Britain's membership in the European Community through a nationwide referendum: he claimed that the EEC had done more harm than good to the British economy, that Heath had been acting as nothing but "Mr. Pompidou's private secretary," and that European integration hindered Britain's special relationship with the United States—which had become all the more apparent in the Washington Energy Conference.[111] Meanwhile, West German ministers called off a series of European meetings to cool tensions, and

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[109] James Reston, "Two Cheers for France," *The New York Times (1923-Current File)*, February 15, 1974; "Clash of Strategies Makes Kissinger Diplomatic Victor."

[110] "12 Nations Agree at Energy Parley on Need for Plan"; "Text of the Communique of the Washington Energy Conference."

[111] "French Stance in Oil Talks Angers Officials in Britain," *The Boston Globe (1872-1981)*, February 15, 1974.

Foreign Minister Walter Scheel openly questioned "whether unity is impossible, whether the Common Market simply settles down to a slightly more elaborate customs union and little else." Given Germany's centrality to the Cold War—and West Germany's permanent need for protection from the bordering Eastern Bloc—officials and newspapers alike made it clear that, if forced to choose between the United States and an "immature" and nationalistic France, Bonn would stand by its bilateral relationship with Washington.[112]

Conclusion:

With the OPEC price shock driving the world into economic and monetary uncertainty, neither the Committee of Twenty summit in Rome nor the Washington Energy Conference managed to provide a durable solution to the Energy Crisis. In both instances, the industrialized capitalist world had been plagued by conflicting interests: delegates could not agree upon a solution to the impending balance of payments disaster, or on the proper conduct of relations with oil-producing states. In both cases, the problem boiled down to the conflict between multilateral and bilateral solutions to the crisis: a multilateral framework that brought together oil-consuming countries might have been effective in pressuring OPEC to lower prices, but countries whose economic situation was more dire sought immediate relief through bilateral oil trade agreements with OPEC. Eventually, two camps crystallized, with Kissinger championing U.S.-led multilateralism, and an increasingly isolated Jobert stubbornly defending France's freedom to conduct whichever deals it wanted. Thus, while the Washington Energy Communique enshrined the ideal of international cooperation as the preferred solution to the crisis, the absence of any

[112] "French Stand at Washington Oil Talks Brings Common Mart Crisis," *Los Angeles Times (1886-1989)*, February 16, 1974; "Bonn Rebuffs Paris, Speaks up for U.S.," *The Christian Science Monitor (1908-Current Issue)*, February 28, 1974.

regulatory frameworks for bilateral deals left France with free hands to continue its negotiations with Iran and Saudi Arabia. This crack in the heart of Atlantic unity would continue rippling through 1974: France continued leading on the bilateral path, eventually triggering a massive global scramble for oil deals with OPEC—including controversial sales of nuclear reactors to the Persian Gulf. And in line with Kissinger's repeated warnings, this would eventually backfire. The United States finally moved unilaterally and forged the most comprehensive deal to date: a long-lasting geopolitical and financial special relationship with Saudi Arabia.

The C-20 Summit in Rome and the Washington Energy Conference would also affect the course of multiple international organizations, from the IMF to the European Community. Both meetings eventually succeeded in laying the groundwork for new multilateral frameworks to manage the Energy Crisis: Witteveen's Oil Facility would see the light of day as a limited framework for petrodollar recycling that helped finance oil deficits for the developing world,[113] while Kissinger's coordinating group would give rise to the International Energy Agency—an autonomous intergovernmental organization built within the framework of the OECD.[114] But the shows of disunity in Rome and Washington also shed doubt about the future of European integration. Unable to achieve a definite victory in the 1974 elections, the conservative Heath government would fall by March, opening the way for Labor leader Harold Wilson's return to 10 Downing Street. The subsequent Wilson years would be marked by Euroscepticism and the enduring controversy over the need for a referendum on British membership in the European Economic Community. Last but not least, competing schemes for Europe would endure in Paris

[113] Ian McDonald, "The Fund and Monetary Reform: Looking to the Future," *Finance and Development: A Publication of the International Monetary Fund and the World Bank Group* 11, no. 3 (September 1974): 16–18.

[114] "History: From Oil Security to Steering the World toward Secure and Sustainable Energy Transitions," International Energy Agency (IEA), accessed February 9, 2021, https://www.iea.org/about/history.

and Bonn, pitting Charles De Gaulle's vision of a loose "Europe of fatherlands" that stood as a political and economic rival to the United States, with Willy Brandt and Walter Scheel's dreams of a tightly unified Europe living under the military protection and nuclear umbrella of the United States. By emboldening nationalisms, the Energy Crisis thus raised enduring questions on the future of European integration and the viability of the Atlantic Alliance.

Chapter IV:
The Perils of Going it Alone:
The Global Scramble for Oil and Dollars and Nuclear Proliferation in the Gulf, 1974-1975

At the Washington Energy Conference of February 1974, France was singled out as the most uncooperative government responsible for breaking apart the urgently needed unity of the capitalist West—both in terms of the Atlantic Alliance and the European Economic Community (EEC). Officials and journalists from Washington and Bonn to from Tokyo and London condemned President Georges Pompidou's government—most notably Foreign Minister Michel Jobert—for carrying out "self-defeating" nationalist policies that threatened the world's economic stability. France was censured for "going it alone" diplomatically, commercially and financially: from floating the Franc away from the European monetary integration system, to refusing to fully sign the Washington Energy Communique, the conservative French government's "neo-Gaullist" posturing struck a direct blow at Europe's relationship with the United States, all while casting doubt on the viability of the European project. But among all these policies, it was the French government's refusal to abide by any rules that might limit its ability to establish bilateral deals with oil-producing states that most frustrated Kissinger's efforts to build a multilateral coalition to fend-off OPEC's oil offensive. Government officials and reporters from across the globe lambasted French officials as "immature," "irresponsible," and even "suicidal" for their uncontrollable behavior—creating an unexpected unity among other OECD governments in condemning French policies and standing behind the United States.[1]

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[1] "Kissinger and French Minister Unable to Reconcile Conflicting Positions," *The Globe and Mail (1936-2017)*, February 13, 1974; "France Rejects U.S. Plan on Oil," *Newsday*, February 13, 1974; "Europe in Disarray," *The Washington Post (1877-1997)*, January 27, 1974; "French Stance in Oil Talks Angers Officials in Britain," *The Boston Globe (1872-1981)*, February 15, 1974; "French Stand at Washington Oil Talks Brings Common Mart Crisis," *Los Angeles Times (1886-1989)*, February 16, 1974; "Bonn Rebuffs Paris, Speaks up for U.S.," *The Christian Science Monitor (1908-Current Issue)*, February 28, 1974.

And yet, French bilateralism would prevail. As Kissinger had dreaded, it was impossible to uphold the logic of multilateralism if a single country refused to play by the rules. Moreover, France's bilateral moves in the Persian Gulf would have long-lasting consequences for world order—most notably in the realm of nuclear proliferation. The governments of Georges Pompidou and Valéry Giscard d'Estaing not only gambled on nuclear power as the key to France's energy independence, but they also inadvertently discovered the export of nuclear reactors to OPEC states as a solution to the balance of payments problems posed by the oil price shock. A breakthrough oil-for-reactors deal with Iran became France's model agreement with an OPEC state, prompting other governments from West Germany to Japan to rush into a global scramble for the Persian Gulf's oil and petrodollars.

Ultimately, the Energy Crisis generated far-reaching unexpected consequences. After French bilateralism prevailed over Kissinger's efforts to uphold Western cooperation against OPEC, France inadvertently pushed the United States into an enduring geostrategic and economic partnership with the Saudi monarchy. This U.S.-Saudi rapprochement then emboldened France's nuclear export policy towards the Gulf—intensifying competition among Western countries for OPEC's favors. With new demands for nuclear reactors coming from Saudi Arabia and Iraq, and European governments bent on exporting nuclear technologies to these newly wealthy oil-producing states, the United States found itself struggling to strike a balance between ensuring the safeguards of the Non-Proliferation Treaty (NPT)—which had just come into force in 1970—and maintaining the international commercial competitiveness of its nuclear industry. The First Oil Shock thus highlighted the NPT's limitations in ensuring that civilian nuclear programs would not be used for military purposes, leading the United States to strengthen the global non-proliferation order through closer cooperation among nuclear suppliers. And yet, the United States could not fend off Europe's nuclear export drive into the Persian Gulf, which gave rise to two of the world's most notable nuclear crises: concerns about the nature of the Iranian nuclear program, and Iraq's pursuit of atomic weapons.[2] It is therefore imperative to bring back the history of the Iranian and Iraqi nuclear programs to their genesis—at the heart of the French response to the Energy Crisis.

I. France "Goes It Alone": European Disunity, Bilateral Deals, and France's Elusive Quest for Energy Independence

The First Oil Shock produced a multipronged crisis across France: with skyrocketing oil prices, gas shortages, labor upheavals, and fears of a monetary calamity, it was quite a challenge for this resource-poor country to secure its energy independence and avert a serious economic recession. French officials had initially pinned their hopes on the European Community, expecting their neighbors to share resources at a time of global turmoil. They were however shocked by the hollowness of European solidarity: from the Northern Sea to the shores of the Persian Gulf, EEC

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[2] There is a rich and growing literature on U.S. efforts and failures to enforce the global non-proliferation regime during the Cold War, and particularly during the 1970s; however, these tend not to delve into the Energy Crisis and the way it challenged the Non-Proliferation Treaty. See William Burr, "A Scheme of 'Control': The United States and the Origins of the Nuclear Suppliers' Group, 1974-1976," *International History Review* 36, no. 2 (2014): 252–76, https://doi.org/10.1080/07075332.2013.864690; William Burr, "To 'Keep the Genie Bottled Up': U.S. Diplomacy, Nuclear Proliferation, and Gas Centrifuge Technology, 1962–1972," *Journal of Cold War Studies* 19, no. 2 (2017): 115–57, https://doi.org/10.1162/JCWS_a_00743; James Cameron and Or Rabinowitz, "Eight Lost Years? Nixon, Ford, Kissinger and the Non-Proliferation Regime, 1969-1977," *Journal of Strategic Studies* 40, no. 6 (2017): 839–66, https://doi.org/10.1080/01402390.2015.1101682; Francis J. Gavin, "Nuclear Proliferation and Non-Proliferation during the Cold War," in *The Cambridge History of the Cold War*, ed. Odd Arne Westad and Melvyn P. Leffler (Cambridge: Cambridge University Press, 2010); Francis J. Gavin, *Nuclear Statecraft: History and Strategy in America's Atomic Age*, Cornell Studies in Security Affairs (Ithaca: Cornell University Press, 2012); Jacob Darwin Hamblin, "The Nuclearization of Iran in the Seventies," *Diplomatic History* 38, no. 5 (2014): 1114–35, https://doi.org/10.1093/dh/dht124; Jacob Darwin Hamblin, *The Wretched Atom: America's Global Gamble with Peaceful Nuclear Technology* (New York, NY: Oxford University Press, 2021); Or Rabinowitz and Nicholas L Miller, "Keeping the Bombs in the Basement: U.S. Nonproliferation Policy toward Israel, South Africa, and Pakistan," *International Security* 40, no. 1 (2015): 47–86, https://doi.org/10.1162/ISEC_a_00207; Jayita Sarkar, "U.S. Policy to Curb West European Nuclear Exports, 1974–1978," *Journal of Cold War Studies* 21, no. 2 (May 1, 2019): 110–49, https://doi.org/10.1162/jcws_a_00877; Jayita Sarkar, "From the Dependable to the Demanding Partner: The Renegotiation of French Nuclear Cooperation with India, 1974-80," *Cold War History*, 2020, 1–18, https://doi.org/10.1080/14682745.2019.1694908.

countries not only refused to come to each other's aid—they actively betrayed each other in their desperate attempts to secure oil and gas supplies. This molded France's radical push towards domestic nuclear expansion as the key for its energy independence and set the basis for a French nuclear export drive into the Persian Gulf. In fact, right as a major nuclear transition was being debated in Paris, the Shah of Iran offered a short- and medium-term energy lifeline to France: trading petroleum for nuclear reactors in an unprecedented oil-for-atoms exchange.

Back in January 1974, the Northern Sea arose as one of the first scenes of intra-European friction when it came to hydrocarbon production. Fortunately for Europe, the OPEC Price Shock made it economically more attractive to develop the recently discovered oilfields off the Scottish, Dutch, and Norwegian shores. French state oil company ERAP's[3] prospection efforts had led to the discovery of the Frigg oilfield in Scottish waters and the Zuidwal gas field in the Netherlands, raising prospects for France to receive its fair share of Northern Sea hydrocarbon production for its domestic consumption. French officials hoped that they would alleviate the impact of oil and gas scarcity and high oil prices on the French economy.[4] To their dismay, however, ERAP found itself facing "the excesses of national egoisms" among the British and Dutch governments: despite large French capital investments to explore and develop these deposits, both the British and the Dutch governments demanded that ERAP's production only be used to satisfy their own domestic markets. In a twist of poetic justice, after France stood against any oil sharing among European

[3] *Entreprise de Recherches et d'Activités Pétrolières* (ERAP) was a French state-owned oil company created in 1965, which became vertically integrated with other French oil companies and unified under the Elf brand (standing for *Essence et Lubrifiants de France*). In 1976, it came to be known as Elf Aquitaine—the second largest French oil company after *Compagnie Française des Pétroles* (CFP), later known as Total. In 2000, Elf Aquitaine was acquired by Total, of which it remains a major brand.

[4] "Correspondance du Délégué Général de l'Energie au Président d'Elf-ERAP," January 11, 1974, 19830369/1, Minutier du délégué général à l'énergie, 1973-Juin 1974, Archives Nationales de France, Pierrefitte-sur-Seine, France; "Note pour Monsieur le Ministre des Affaires Etrangères," February 5, 1974, 19830369/1, Minutier du délégué général à l'énergie, 1973-Juin 1974, Archives Nationales de France, Pierrefitte-sur-Seine, France.

countries during the embargo, it was the Netherlands' turn to reciprocate: this was, after all, British oil and Dutch gas.[5] For instance, the Dutch government would only give ERAP a concession on the Zuidwal gas deposits if 100% of the French production was sold to the national Dutch gas company—which would do nothing to alleviate France's enduring gas shortage. Instead, the Dutch national oil company was seeking to profit from France's gas scarcity. To add insult to injury, ERAP's exploration efforts in Northern French waters and off the coast of Brittany were leading nowhere: France seemed to be cut off from the natural bounty of the Northern Sea, and neither the United Kingdom nor the Netherlands would share this prize with their neighbor.[6] Facing European resource nationalisms, the French government looked for options elsewhere.

Starting in January 1974, Jean Blancard, France's recently appointed Chief Energy Delegate[7] was given the gargantuan task of finding solutions to the multipronged challenges unleashed by the First Oil Shock: insecure oil and gas supplies, high energy prices, and a rapidly deteriorating balance of payments. Like the United States, France set a long-term goal of moving towards energy independence. However, without access to any domestic oil reserves, the quest for energy independence seemed quixotic at best: unlike the United States and Canada—with their wealth of oil, gas, coal, and uranium deposits—or the United Kingdom and the Netherlands—with their new oil and gas discoveries in the Northern Sea—it was a particularly arduous task for France to achieve any degree of energy independence without some radical breakthrough.

In this context, the PEON Commission—the state's main advising body on nuclear energy matters—met in January 1974 to formulate a new strategy to ensure France's long-term energy

[5] "Remarques Sur La Position de M. F. Mitterrand Dans Son Étude 'Pour Une Vraie Politique de l'Energie.'"

[6] "Note pour Monsieur le Ministre des Affaires Etrangères."

[7] This post reported directly to the Prime Minister.

security.[8] Its first recommendations called for an unprecedented expansion of France's nuclear capacity: given the oil price hike, and France's lack of alternatives, nuclear power could be the safest path for the country to achieve a measure of energy independence at relatively low costs. The PEON Commission report generated a wave of "nuclear euphoria," feeding into government ambitions to make atomic energy the lynchpin of France's new energy strategy.[9] But with France debating a massive transition away from hydrocarbons and toward nuclear power, the country still needed to find a short- and medium-term solution to the oil crisis. In fact, even with the prospects of a nuclear future, it would take years for any new reactors to become operational.

The administrations of Georges Pompidou and his successor Valéry Giscard d'Estaing would both grapple with this problem, and the only solution at hand seemed to be that of bilateral deals with OPEC states. To redress its trade deficit, France had to find a competitive, high-value-added export in exchange for OPEC's oil. At first, military equipment seemed like an obvious choice: France's Gazelle helicopters and Mirage aircraft were certainly prized on world markets and could be traded for oil with the Gulf's Arab monarchies. In fact, these countries did not have large domestic consumer markets, but their leaders were certainly keen on ensuring their regimes' survival by meeting their security needs. Thus, while the French government had frozen its sales of military aircraft and helicopters to Kuwait during the Arab-Israeli War, it signaled its desire to

[8] The *Commission pour la Production d'Electricité d'Origine Nucléaire* (PEON) was established in 1955 to bring together government officials, industrialists, and top executives from *Electricité de France* (EDF) and the *Comissariat à l'Energie Atomique* (CEA) to advise the French government on nuclear energy matters. During the 1960s, the PEON Commission's role evolved into that of an allegedly objective and technocratic decision-making body that would direct the course of the French nuclear energy sector—seeking to balance the conflicting objectives of producing cheap electricity for consumers (with American technologies) and pushing for the dominance of French technologies in the European and international nuclear energy market. See Gabrielle Hecht, *The Radiance of France:Nuclear Power and National Identity after World War II*, Inside Technology (Cambridge, Mass.: MIT Press, 1998), pp. 287-291.

[9] D. Finon, "Evolution comparée de la compétitivitié de la production d'électricité d'origine nucléaire aux Etats-Unis et en France (deuxième partie)," *Revue d'économie industrielle* Vol. 3, no. 1 (1978): 82–129.

restart arms negotiations in January 1974—but only if they were connected to oil supplies.[10] France also succeeded in signing a three-year agreement with Saudi Arabia that connected oil sales through 1977 to the construction of a new refinery and sales of Mirage aircraft, and began to negotiate a second, more ambitious ten-year deal with the Saudi monarchy.[11] And yet, the long-term viability of arms sales as a solution to France's energy trade predicament remained questionable: it was unlikely that the entirety of France's oil imports could be translated into arms exports to Arab states—and such sales also posed the risk of triggering regional arms races.

Fortunately, France had thoroughly avoided the Arab oil embargo, and could exploit the growing rifts among oil-producing states. At the most fundamental level, diverging visions of national development pitted populous OPEC members—such as Iran, Iraq, Venezuela and Nigeria—against the more sparsely populated Arab Gulf states—especially Saudi Arabia, Kuwait, and Abu Dhabi.[12] Iran, and to a lesser degree, its neighbor Iraq, needed to maintain elevated volumes of oil production at high prices in the short term in order to generate enough capital to carry out ambitious industrialization and modernization programs and raise the living standards of their sizable populations, presenting France with potential trade opportunities. And in the case of Iran, ambitions went beyond mere domestic industrialization: The Shah wanted to turn Iran into a great world power and a purported leader of the Third World. He had already launched the so-

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[10] "Note Verbale," January 10, 1974, 19830369/1, Minutier du délégué général à l'énergie, 1973-Juin 1974, Archives Nationales de France, Pierrefitte-sur-Seine, France.

[11] "Correspondance du DGE au Président de l'ERAP," January 25, 1974, 19830369/1, Minutier du délégué général à l'énergie, 1973-Juin 1974, Archives Nationales de France, Pierrefitte-sur-Seine, France; "Memorandum of Conversation: Secretary's Meeting with Oil Company Executives," March 29, 1974, *FRUS*, Vol. XXXVI, Doc. 345.

[12] "Note pour Monsieur le Premier Ministre sur la Collaboration entre l'Iran et la France dans le Domaine de l'Energie," March 21, 1974, 19830369/1, Minutier du délégué général à l'énergie, 1973-Juin 1974, Archives Nationales de France, Pierrefitte-sur-Seine, France; "Note pour Monsieur le Premier Ministre sur la Situation Actuelle de la France en Matière d'Energie," May 17, 1974, 19830369/1, Minutier du délégué général à l'énergie, 1973-Juin 1974, Archives Nationales de France, Pierrefitte-sur-Seine, France; "Remarques sur la position de M. F. Mitterrand dans son étude 'Pour une Vraie Politique de l'Energie.'"

called “White Revolution” since 1963—which sought to industrialize the country and provide social services to fend off a Communist “red” revolution.[13] The sudden and unprecedented bonanza that stemmed from high oil prices promised to breed new life into the Shah’s dreams of turning Iran into an industrial powerhouse and Tehran into an international financial center. At a smaller scale, the Ba’athist government in Iraq also saw an opportunity for the rapid mechanization of agriculture across the countryside and the expansion of nascent industries, and had not joined the Arab oil embargo as to reap the benefits of the successive oil price hikes. Hence, Iran and Iraq appeared as attractive potential export markets for French industrial goods, which could help address the build-up of balance of payments deficits. In contrast, Saudi Arabia and Kuwait’s small populations posed challenges in terms of these states’ ability to absorb the exceptionally high profits generated by the OPEC price shock: if injected into their small economies, these astronomical revenues would quickly be translated excessive money production and hyperinflation. Without an efficient mechanism for managing these currency reserves, these countries’ best interest appeared to lie in cutting back production and even prices, which made them less likely than Iran and Iraq to massively acquire foreign industrial goods.[14]

Moreover, the Shah’s complex relationship with the United States could favor France’s bid for a strengthened partnership with Iran. While the country’s regional stature as a pro-American, anti-Communist bastion had been enshrined in its alliance with the United States—whether as the “Policeman of the Gulf” or as one of the “Twin Pillars” in Nixon and Kissinger’s vision for the Middle East—these dynamics also generated domestic and international resistance to the Shah’s

[13] For an overview of the social, political, and economic processes engulfing Iran during the reign of Mohammad Reza Shah and leading to the 1979 Islamic Revolution, see Ervand Abrahamian, *Iran between Two Revolutions* (Princeton, N.J: Princeton University Press, 1982).

[14] “Note pour Monsieur le Premier Ministre sur la Collaboration entre l’Iran et la France dans le Domaine de l’Energie”; “Note pour Monsieur le Premier Ministre sur la Situation Actuelle de la France en Matière d’Energie”; “Remarques sur la position de M. F. Mitterrand dans son étude ‘Pour une Vraie Politique de l’Energie.’”

rule.[15] In fact, the perception that he was subservient to the United States betrayed his grandstanding—and sometimes megalomaniac—pretensions. Hence, early in 1974, the Shah began announcing projects to expand his international influence all while distancing himself from the United States: he promised to build new refineries to provide oil to the developing world, especially India and Pakistan,[16] and he was vocal about his plans to distribute financial aid and oil funds internationally—even suggesting that a new World Bank should be established with oil money, in which OPEC members would play a central role and America would see its influence wane.[17] Nonetheless, these ambitious plans required large capital investments and technology transfers—which he hoped to receive from countries other than the United States. This seemed like a potential win-win situation for France: without the tainted backdrop of colonial and post-colonial influences held by the U.S. and the U.K. in the Persian Gulf, France could assist Iran in its industrialization and its ascent as a world power, all while receiving not just an oil and gas lifeline, but also an outlet for French high-value-added exports that could help address the current account deficits caused by the OPEC price shock.[18]

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[15] For overviews on American grand strategy in the Gulf during the Nixon years, and the concepts of the "Twin Pillars" and the "Policeman in the Gulf," see Emile A. Nakhleh, *The Persian Gulf and American Policy* (New York, N.Y.: Praeger, 1982); Howard Teicher, *Twin Pillars to Desert Storm: America's Flawed Vision in the Middle East from Nixon to Bush* (New York: William Morrow and Co, 1993); W. Taylor Fain, *American Ascendance and British Retreat in the Persian Gulf Region*, 1st ed. (New York: Palgrave Macmillan, 2008); Steven A. Yetiv, *The Absence of Grand Strategy: The United States in the Persian Gulf, 1972-2005* (Baltimore, MD: Johns Hopkins University Press, 2008); Andrew Scott Cooper, *The Oil Kings: How the U.S., Iran, and Saudi Arabia Changed the Balance of Power in the Middle East*, 1st Simon & Schuster hardcover ed. (New York: Simon & Schuster, 2011).

[16] "Note pour les Présidents d'Elf-ERAP et de la C.F.P. sur l'Entretien du 12 Mars 1974 avec le Dr. Reza FALLAH," March 14, 1974, 19830369/1, Minutier du délégué général à l'énergie, 1973-Juin 1974, Archives Nationales de France, Pierrefitte-sur-Seine, France.

[17] "Note sur la Coopération Franco-Iraniennne en Matière d'Energie," May 7, 1974, 19830369/1, Minutier du délégué général à l'énergie, 1973-Juin 1974, Archives Nationales de France, Pierrefitte-sur-Seine, France.

[18] "Note pour Monsieur le Premier Ministre sur la Coopération avec l'Iran, Notamment sur d'Importants Gisements de Gaz Naturel," January 15, 1974, 19830369/1, Minutier du délégué général à l'énergie, 1973-Juin 1974, Archives Nationales de France, Pierrefitte-sur-Seine, France.

And yet, the French government would soon learn that the Energy Crisis continued giving way to cut-throat rivalry among Europeans as they competed for preferential access to Iran's hydrocarbons. As a response to the Oil Shock, many countries were bent on transitioning power generation and heating technologies from oil to natural gas, so France's *Gaz de France* (GDF), Italy's SNAM and Germany's Ruhrgaz teamed up to bring Southern Iran's offshore gas into the European market.[19] However, what had begun as a friendly commercial partnership quickly degenerated into a bitter rivalry among European companies and the governments that backed them. In mid-January 1974, French officials were shocked to discover that the Italian government was covertly using this joint venture to secretly negotiate an Iranian-Italian preferential economic partnership. This was just further proof that, within the European Economic Community, oil and gas had become divisive and contentious issues of national and economic security. Chief Energy Delegate Jean Blancard thus expressed to Prime Minister Pierre Messmer that, if one country was to propose a comprehensive economic partnership to the Shah, this would be France. No other country would facilitate Iran's industrialization with a permanent presence of foreign experts on Iranian soil.[20] And again, no Italian company would offer its technical expertise to Iran, but solely and exclusively a French company such as GDF or ERAP.[21] The French government not only felt

[19] "Note pour Monsieur le Premier Ministre sur la Coopération avec l'Iran, Notamment sur d'Importants Gisements de Gaz Naturel."

[20] "Note pour Monsieur le Premier Ministre sur la Coopération avec l'Iran, Notamment sur d'Importants Gisements de Gaz Naturel."

[21] By March 1974, it was finally agreed that SNAM would not be Iran's exclusive partner for technical cooperation in the Kangan gas fields, but that these responsibilities would be equitably shared between GDF, SNAM, and Ruhrgas – an agreement that French officials found to be sub-optimal yet satisfying. See "Correspondance du Délégué Général à l'Energie au Président de l'ERAP, sur le Consortium de Sociétés Gazières Européennes pour l'Approvisionnement et le Transport du Gaz Natural d'Iran en Europe Continentale de l'Ouest," January 25, 1974, 19830369/1, Minutier du délégué général à l'énergie, 1973-Juin 1974, Archives Nationales de France, Pierrefitte-sur-Seine, France; "Correspondance du Délégué Général à l'Energie au Directeur Général de Gaz de France sur l'Accord de Consortium Signé par Gaz de France pour l'Achat de Gaz Iranien," February 25, 1974, 19830369/1, Minutier du délégué général à l'énergie, 1973-Juin 1974, Archives Nationales de France, Pierrefitte-sur-Seine, France.

backstabbed by its partners, but the unfairness of France's treatment and isolation in international forums such as the C-20 seemed blatant: apparently, anti-French discourse served as the ideal cover-up for other European states' own quest for bilateral arrangements OPEC states.

Jean Blancard thus set out to meet with the Shah in Zurich on February 6, 1974—a week prior to the Washington Energy Conference—with the hopes of securing a new, comprehensive Franco-Iranian partnership.[22] But the Shah proved to be a difficult negotiator. From the beginning, he made it clear that France was not alone in seeking to package attractive trade offers within new intergovernmental agreements. While crude supplies still remained available, competition was stiff, not only among industrialized countries—such as the United Kingdom, Italy, Japan and West Germany—but also among developing countries such as India and Pakistan that were also seeking to benefit from the Shah's alleged generosity.[23] Again, for all their criticisms of Michel Jobert in Washington, officials in Bonn and Tokyo were also engaging in negotiations with Iran—and the Shah was adeptly pitting them against each other as they vied for his most favorable treatment. Moreover, the Shah insisted that any deal would be conditioned upon supporting the cause of Iranian industrialization through significant aid and capital investments into his country. But this came at the worst possible time for a country like France, which was trying to stem the veritable "hemorrhage of foreign currency" into the Gulf: giving any form of aid to Iran would worsen France's current account deficit.[24] And yet, Blancard had few options but to accept the Shah's

[22] "Note pour Monsieur le Premier Ministre sur la Coopération avec l'Iran, Notamment sur d'Importants Gisements de Gaz Naturel."

[23] "Note pour les Présidents d'Elf-ERAP et de la C.F.P. sur l'Entretien du 12 Mars 1974 avec le Dr. Reza FALLAH."

[24] This was one of the key reasons that Iran's negotiations with Japan faltered: the Japanese government was unable to find an investment scheme in Iran that wouldn't further degrade its trade balance. "Correspondance du Délégué Général à l'Energie au Directeur Général de Gaz de France sur l'Accord de Consortium Signé par Gaz de France pour l'Achat de Gaz Iranien," February 25, 1974.

terms. Indeed, the tables had turned: the post-colonial world suddenly had a veritable say in the economic future of the industrialized world.

Facing this hurdle, Jean Blancard received an intriguing proposal from the Shah that would set the basis for an unprecedented bilateral oil deal. The Iranian monarch explained that he was seeking to reorganize his country's entire energy sector—not only would he create a new Ministry of Energy and Water, but he also wanted to establish a new Atomic Energy Organization modeled after the French. In fact, the Shah recognized that Iran's oil and gas resources were finite—and Europe's apparently infinite hunger for Iranian oil made conservation efforts futile—so he wanted to take advantage of his country's favorable financial position to start planning for Iran's post-hydrocarbon industrial future by diversifying away from a petroleum-based mono-culture economy. Furthermore, nuclear power could not only set the foundations for his country's industrialization, but Iran's mastery of the atom could also signal the country's rise as a technological world power. He also noted that a great number of Iranian nuclear scientists had been trained in France, so he wanted to bring them back to launch Iran's nuclear program. And, given the ongoing meetings of the PEON Commission, wasn't France betting on nuclear energy as the key for its own energy independence? Thus came a perplexing suggestion from the Shah to Blancard: Could Iranian oil be exchanged for French atomic power? The French official was puzzled: this all seemed very appealing, but how would such a trade framework even work?[25]

This meeting proved to be timely and fateful. By the end of February 1974, an Interdepartmental Commission for Economic Cooperation began deliberations on a Franco-Iranian

[25] "Note pour les Présidents d'Elf-ERAP et de la C.F.P. sur l'Entretien du 12 Mars 1974 avec le Dr. Reza FALLAH."

"Atom-Petroleum Exchange."[26] Then, on March 5, 1974, Prime Minister Pierre Messmer announced his most audacious energy plan to date: following the PEON Commission Report, he would launch an unprecedented and massive acceleration of France's civilian nuclear program for electricity generation, with the construction of more than fifty nuclear reactors within the decade. This so-called Messmer Plan would commit the French state to support the national utility company *Electricité de France* (EDF) in building six to eight nuclear plants per year between 1974 and 1980, when the first reactors were expected to become operational.[27] Enriched uranium would thus replace fuel oil as France's main primary source of electricity production, which was all the more urgent given the rapid decline of France's previously imposing Nord-Pas-de-Calais coal mines and of the Lacq gas fields in Aquitaine.[28] But the Messmer Plan would also serve as the bedrock for the new partnership with Iran: France would not only expand its nuclear capacity at home, but it would also export reactors abroad into the Persian Gulf in order to address its short- to medium-term energy shortages and payments imbalances. Thus, the Messmer Plan and the Atom-Petroleum Exchange would mutually sustain each other.

At a domestic level, building over fifty nuclear plants in less than a decade raised a long list of challenges. There were contentious environmental and legal issues: for instance, a massive deployment of nuclear reactors across France's entire territory could potentially endanger civilian

[26] "Correspondance du Délégué Général à l'Energie au Directeur Général de Gaz de France sur l'Accord de Consortium Signé par Gaz de France pour l'Achat de Gaz Iranien," February 25, 1974.

[27] "Correspondance du Délégué Général à l'Energie au Directeur Général d'Electricité de France," May 22, 1974, 19830369/1, Minutier du délégué général à l'énergie, 1973-Juin 1974, Archives Nationales de France, Pierrefitte-sur-Seine, France.

[28] "Correspondance du Directeur Général à l'Energie au Directeur Général d'EDF," January 28, 1974, 19830369/1, Minutier du délégué général à l'énergie, 1973-Juin 1974, Archives Nationales de France, Pierrefitte-sur-Seine, France; "Correspondance du Délégué Général à l'Energie à Monsieur Boulin, Directeur Général de CREUSOT-LOIRE," January 23, 1974, 19830369/1, Minutier du délégué général à l'énergie, 1973-Juin 1974, Archives Nationales de France, Pierrefitte-sur-Seine, France.

populations,[29] and key nuclear equipment remained licensed to U.S. company Westinghouse.[30] But the most pressing questions were financial in nature: the program would consume at least a billion Francs in its first couple of years, all while France was facing an imminent recession and EDF did not have the working capital to carry out this investment on its own. Hence, would the French government have to borrow in international capital markets to carry out these investments? In this context, French policymakers hoped that the deal with Iran would ease some of these financial pressures, with sales of nuclear reactors providing some of the much-needed financial capital for this massive energy transition.

Over a long series of meetings, Jean Blancard and Valéry Giscard d'Estaing met with Iranian Minister of Economic Affairs and Finance Hushang Ansary, Iranian Prime Minister Amir-Abbas Hoveyda, and the Shah to start building a comprehensive agreement to secure France's petroleum supplies while developing Iran's nuclear capabilities. Iran would rely upon French corporations, technicians, and government advisers to build a nuclear electricity generation capacity of 5,000 MW; France would train Iranian technical personnel, build nuclear reactors, and furnish the enriched uranium and other fissile materials needed to run these nuclear plants; it would also offer services and expertise for building desalination plants and nuclear-propelled oil tankers. As a token of this partnership, the Atomic Energy Organization of Iran (AEOI) would be modeled on that of France, taking inspiration from the statutes, regulations, and other legal frameworks of the French *Commissariat à l'Energie Atomique* (CEA). In this manner, Iran agreed to have a special cooperation framework with France on nuclear matters in exchange for oil shipments—all

[29] "Note pour Monsieur le Premier Ministre sur la Situation Actuelle de la France en Matière d'Energie."

[30] "Correspondance du Délégué Général à l'Energie à l'Administrateur Général Délégué du Comissariat à l'Energie Atomique," February 11, 1974, 19830369/1, Minutier du délégué général à l'énergie, 1973-Juin 1974, Archives Nationales de France, Pierrefitte-sur-Seine, France.

while promising to open up new oil and gas prospection zones to ERAP and the *Compagnie Française des Pétroles* (CFP, nowadays known as Total).[31] Thus, the build-up of the Iranian nuclear program stood as a complement to and an enabler of France's drive towards energy independence, and they were announced simultaneously: March 1974 not only saw the announcement of the Messmer Plan, but also the Shah's declaration that Iran would launch a massive nuclear program, which he hoped would surpass 20,000MW over a couple of decades.[32]

But there were additional covert financial aspects to this Atom-Petroleum Exchange. In order to ease pressures on France's deteriorating current account and waning foreign currency reserves, the French government pressed for an additional agreement: a petrocurrency recycling mechanism. Under this framework, Iran was invited to establish a franc-denominated special account in the Banque de France to hold "excess profits" from French purchases of Iranian oil—hopefully totaling three to four billion dollars between 1975 and 1980.[33] These funds could thus be used as prepayments for future Iranian purchases of French nuclear services and equipment—enabling the exchange of short-term oil deliveries to France for long-term nuclear exports to Iran. This would also alleviate pressures on French foreign exchange reserves and help finance the buildup of French nuclear reactors.[34] Given rising contentions about the proper use of excess oil profits by OPEC members—whether they should be placed in multinational institutions such as

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[31] "Note pour Monsieur le Premier Ministre sur la Collaboration entre l'Iran et la France dans le Domaine de l'Energie"; "Correspondance du Délégué Général à l'Energie à l'Ambassadeur de France à Téhéran," April 1, 1974, 19830369/1, Minutier du délégué général à l'énergie, 1973-Juin 1974, Archives Nationales de France, Pierrefitte-sur-Seine, France; "Note sur la Coopération Franco-Iraniennne en Matière d'Energie."

[32] Mustafa Kibaroğlu, "Iran's Nuclear Ambitions from a Historical Perspective and the Attitude of the West," *Middle Eastern Studies* 43, no. 2 (2007): 223–45, https://doi.org/10.1080/00263200601114083.

[33] By excess profits, the French government understood the surplus revenues from oil purchases by the *Compagnie Française des Pétroles* (CFP) beyond the price of USD 3 per barrel – that is, the posted price before the OPEC price hike.

[34] "Note pour Monsieur le Premier Ministre sur la Collaboration entre l'Iran et la France dans le Domaine de l'Energie."

the IMF, or used by petrostates to give aid to the developing world, as the Shah himself claimed he would do—the terms of this agreement had to remain shrouded by the highest level of secrecy.[35] Once again, self-interested bilateralism trumped any apparent calls for global solidarity, and French officials prided themselves on outmaneuvering their allies in negotiating one of the most beneficial government-to-government partnerships to date with an OPEC member.[36] By late March 1974, French and Iranian officials embarked into deeper negotiations to devise an effective, mutually-beneficial framework for this unprecedented exchange.

And yet, there remained a striking paradox in this reorientation of French energy policy towards nuclear power: France was not a major uranium producer. Despite all the talk about "energy independence," the country would need to import uranium from abroad—and the same applied to the enriched uranium that France was bound to furnish to Iran. France was just shifting dependency from one foreign raw material to another. The French government had indeed launched a massive prospection of uranium deposits across the country's central and southern regions,[37] but the largest wealth of reserves would remain overseas in *outre-mer*, most notably in Niger and Gabon. The Messmer Plan and the Franco-Iranian Atom-Petroleum Exchange thus hid the continued importance of the neocolonial machinery that the French state had built over its former African colonies since their independence in the early 1960s—the system of political patronage, security arrangements, and economic dominance known as *la Françafrique*. In fact, being produced by French companies, with French technology and capital, and traded in French

[35] "Note Pour Monsieur ROCALVE," May 6, 1974, 19830369/1, Minutier du délégué général à l'énergie, 1973-Juin 1974, Archives Nationales de France, Pierrefitte-sur-Seine, France.

[36] "Note sur la Coopération Franco-Iranienne en Matière d'Energie."

[37] "Correspondance du Délégué Général à l'Energie à Jacques Chirac, Ministre de l'Intérieur," May 14, 1974, 19830369/1, Minutier du délégué général à l'énergie, 1973-Juin 1974, Archives Nationales de France, Pierrefitte-sur-Seine, France.

Francs, the oil and uranium of Gabon and Niger were perceived in Paris to be quintessentially—even nationally—"French." Despite increasing levels of producing-government participation in uranium mining activities—a trend that followed OPEC governments' drive for equity participation in oil production—the French *Comissariat à l'Energie Atomique* (CEA) remained a key stakeholder in all these operations, allowing France to keep a firm grasp over 15% of the world's known uranium reserves. For historian Gabrielle Hecht, this was meant to sustain France's "radiance" as a great power after decolonization.[38]

And yet, the Oil Shock had emboldened these African governments—raising a potential challenge to France's new energy strategy. Presidents Omar Bongo of Gabon and Hamani Diori of Niger both sought ways to strengthen their national control over uranium deposits all while trying to emulate OPEC in consolidating an international uranium cartel.[39] The Messmer Plan and the Franco-Iranian negotiations were thus threatened by these African leaders' call for a tripartite meeting in Niger's capital city of Niamey in March 1974, in which they sought to push France to pay higher uranium prices. This clearly conflicted with the French government's intention to use the shift from oil to uranium to address its balance of payments problems by lowering the cost of energy imports.

Bongo and Diori teamed up in a two-pronged offensive. Bongo—whose country was a key producer of "French" oil—had been building an increasingly close relationship to Libya's Qaddafi as he made a bid for Gabon's OPEC membership. As a token of this friendship, he had even converted to Islam, performed the Hajj pilgrimage to Mecca, and changed his name to El Hadj

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[38] Gabrielle Hecht, *Being Nuclear: Africans and the Global Uranium Trade* (Cambridge, Mass.: MIT Press, 2012), 107-112. In fact, France became the fourth country in the world to get the nuclear bomb, and its first nuclear trial in the Sahara actually coincided with France's imminent loss of Algeria. Given the simultaneity of imperial decline and the rise of French nuclear power, De Gaulle sought to conceal France's international decline by focusing the world's attention on France's rise as a global nuclear power rather than its crushing defeat in Algeria.

[39] Hecht, 115-118.

Omar Bongo—all while becoming an increasingly bold advocate of "Third Worldism" to challenge France's hold over Gabon's strategic resources. Inspired by the Libyan leader's punitive measures against foreign oil interests, and then by OPEC's single-handed moves to increase oil prices, Bongo sought to unilaterally force France's hand in terms of both oil and uranium.[40] In contrast, Diori would play on French prestige and on nuclear power's uniqueness. Given the massive expansion of France's nuclear program, the Nigerien leader reasoned that "if Niger's uranium could fuel France's exceptional nuclearity […] surely France could fund exceptional contributions to Niger's treasury."[41] He also suggested that the price of uranium could be pegged to that of the oil which it was meant to substitute—allowing Niger in turn to benefit from OPEC's price hike. After all, the price of African uranium was incalculable: it was the price of French energy and economic independence, of protecting the value of the Franc and the viability of the Franc Zone, and of preserving France's *grandeur* across its former empire.

But, with the French delegation refusing to accept any such terms, negotiations stalled enough for President Diori to be overthrown by a coup just a month later in April 1974—a few days after President Pompidou's untimely death. The coup brought an abrupt end to these negotiations and raised alarms and consternation: was it a French-orchestrated act of revenge against an African leader who had dared to cross a line? This was unlikely, as Diori's successor Seyni Kountché would not prove friendlier to French economic interests in the region. However, Diori did pay the price of having sought to interfere with France's plans for a bright nuclear future: a historic French ally, he was overthrown without any French move to keep him in power—even if the former colonizer was legally bound to protect him according to Sub-Saharan African

[40] Hecht, 122-123.

[41] Hecht, 128.

countries' 1960 decolonization agreements.[42] In this sense, France's nuclear-powered energy independence would go hand in hand with the reaffirmation of neocolonial relations with its former African colonies: with the collapse of the tripartite rounds in Niamey, France was free to continue on the twin paths of nuclear power expansion at home and oil-for-reactors deals abroad.[43]

II. The U.S. Joins the Fray: The Global Scramble for Oil and Dollars and the U.S.-Saudi Special Relationship

France's rising fortunes in the Gulf mirrored the rapid decline in the United States' standing in the region: as ties between France and Iran blossomed, U.S.-Saudi relations hit rock bottom. Despite Kissinger's sponsorship of the Arab-Israeli ceasefire, weeks of shuttle diplomacy between Jerusalem, Cairo and Damascus, and the successful achievement of Egyptian-Israeli military disengagement on January 18, 1974, King Faisal of Saudi Arabia remained reticent to lift the embargo.[44] For the embattled Nixon administration, this felt like a multi-pronged betrayal from a

[42] In fact, since Charles de Gaulle granted them independence in 1960, French security arrangements with the former African colonies included clauses to protect their leaders against foreign and domestic threats, including coups. This had, for instance, been the case with the 1964 Gabonese coup against Bongo's predecessor Léon M'ba, when French paratroopers intervened to suppress the provisional government of Jean-Hilaire Aubame and restored M'ba to the presidency. In the context of tripartite negotiations with Gabon and Niger, the contrasting treatment of Diori was more than apparent. In this case, France did not abide by its 1960 commitment to protect friendly Sub-Saharan African regimes from domestic threats. See Hecht, 128-130.

[43] Both Bongo and Kountché would find their own means towards asserting independence all while retaining a strong French presence in their countries' uranium mining activities. Six weeks after the breakdown of negotiations in Niamey, Bongo obtained a 25% share in the COMUF mining company for the Gabonese state, which, in tandem with accession to OPEC, allowed him to better assert his nationalist credentials and strengthen his rule. Moreover, both Gabon and Niger began to sell uranium independently, in proportion to these states' share of ownership of their mining consortiums. This would enable Bongo to get greater control over the price of uranium sold to countries other than France, all while allowing Kountché to turn Niger into a central node of an increasingly dangerous global uranium black market. See Hecht, 130-132.

[44] For overviews of Kissinger's shuttle diplomacy between Israel and Arab capitals, as well as his negotiations with Faisal to lift the embargo, see Henry Kissinger, *Diplomacy* (New York: Simon & Schuster, 1994); Daniel Yergin, *The Prize: The Epic Quest for Oil, Money, & Power* (New York: Free Press, 2009); Daniel J. Sargent, *A Superpower Transformed: The Remaking of American Foreign Relations in the 1970s* (Oxford: University Press, Oxford University Press USA - OSO, 2015); Victor McFarland, *Oil Powers: A History of the U.S.-Saudi Alliance* (New York, NY: Columbia University Press, 2020).

variety of allies: not only was Saudi Arabia condemning the American public to continued oil shortages and long lines at the gas pump, but France kept leading the way for other allies to engage in bilateral negotiations with OPEC. In this sense, Kissinger's diplomatic hands were doubly tied: he had to focus most of his energy on resolving the Arab-Israeli dispute as to have the embargo lifted, all while trying to uphold the shaky order of multilateral cooperation through initiatives such as the Washington Energy Conference. And even then, any semblance of Western unity crumbled, as even his close allies in Bonn and Tokyo followed Paris in pursuing deals that threatened to permanently divert constricted oil supplies away from the American market. This left few options for Kissinger but to renew U.S.-Saudi relations: the French-led global scramble for oil and dollars inadvertently pushed the United States into a highly consequential long-lasting partnership with the Saudi monarchy.

By February 1974, the Energy Crisis had brought about a vast explosion of social unrest across the United States. On January 30, 1974, in his State of the Union speech, President Nixon promised an impending end to the embargo, but on the next day he faced a massive and violent truckers' strike: protesters shut down the American interstate highway system across 42 states to demand a rollback of oil prices. After U.S. highways were seized by gunmen and arsonists, hundreds of truckers were arrested, and the nation's commercial activity was brought to a standstill. The situation became so critical that five counties in West Virginia declared martial law, and a dozen governors mobilized the National Guard to contain the violence. Because of this transportation paralysis, the then-familiar energy shortages and long lines at the gas pump were compounded by a scarcity of milk, poultry, and eggs from New York to Massachusetts. This brought even more desperation to the general population: not only was New England facing gas shortages of up to 40%, and one in four gas stations had closed in New York City, but the supply chain disruptions caused by the truckers' strike made it difficult to even find basic foodstuff in supermarkets.[45]

For average Americans, there was a clear culprit: President Nixon and his administration—which was increasingly perceived not just as incompetent, but also as deeply corrupt, with threats of impeachment picking up steam. With rising mistrust of the government, rumors spread that there was no real oil crisis, as it was all a "hoax" designed to enrich greedy oilmen and corrupt politicians. Thus, the Energy Crisis became an ideological arena pitting labor activists and their Democratic Party backers—who demanded a rollback of oil prices through government controls—and President Nixon—who moved economically further to the right by resisting interventionist measures and standing up for "free enterprise."[46]

And it was then, right as U.S. government officials struggled to contain this nation-wide unrest, that King Faisal announced a new set of conditions to restore oil sales to the United States—revealing the vacuity of Nixon's State of the Union promises: while the Saudi monarch had previously claimed that the Egyptian-Israeli military disengagement would be enough for the boycott to be lifted, after a meeting with Syrian President Hafez al-Assad he now claimed that this would be impossible as long as Israeli-Syrian armed hostilities persisted.[47] But in the context of the Cold War, Faisal's decision to prolong economic sanctions against the United States for the sake of Syria's Soviet-armed, Libyan-backed, anti-American regime came as another betrayal.[48] The fact that this occurred at a time of heightened turmoil across the United States—with Nixon

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[45] Meg Jacobs, *Panic at the Pump: The Energy Crisis and the Transformation of American Politics in the 1970s*, 1st edition. (New York: Hill and Wang, a division of Farrar, Straus and Giroux, 2016), 89-95.

[46] Jacobs, 97-98.

[47] "Telegram from the Department of State to the Interests Section in Egypt," February 2, 1974, *FRUS*, Vol. XXXVI, Doc. 302.

[48] "Telegram from the Department of State to the Consulate General in Riyadh," February 6, 1974, *FRUS*, Vol. XXXVI, Doc. 304.

moving to crack down on the truckers whom he called "lawbreakers" and "outlaws"—made Faisal's decision appear even more spiteful.[49] Thus, the power struggle between Saudi Arabia and the United States reached a dangerous climax: infuriated by months of blackmail, Kissinger threatened to publish the exchanges between the American government and the Saudi monarchy—and expose the Kingdom's hypocrisy and duplicitous diplomacy to the public light. The whole world would know, for instance, that while Saudi Arabia mobilized the anti-American embargo to enhance its claims to leadership of the Arab and Islamic worlds, it had tried to secretly provide oil to the sixth and seventh American fleets via Bahrein back in January.[50]

Omar Saqqaf, the Saudi Minister of Foreign Affairs, condemned Kissinger's threats as "mendacious" and "insulting." He accused the Nixon presidency of only caring about its own survival, before proceeding to decry Americans for being "even more totally enslaved to Israeli wishes and Zionist pressure than the Arabs believed." As Americans were "acting irrationally" and "obviously contrary to their own interests," Saqqaf claimed that he was ready to end all U.S.-Saudi military cooperation and instead buy armaments from Europe. Not only would Saudi Arabia withdraw its funds from American banks—potentially launching a currency war against the dollar—but Aramco could be nationalized or given to European or Japanese investors. Saudi Arabia had wanted to depend on the United States, but Saqqaf claimed that, with rising European and Japanese interest in bilateral deals that would benefit the kingdom's development, "We can

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[49] Jacobs, *Panic at the Pump*, pp. 100-101.

[50] "Telegram from the Embassy in Saudi Arabia to the Department of State," February 30, 1973, *FRUS*, Vol. XXXVI, Doc. 275; "Telegram from the Embassy in Saudi Arabia to the Department of State," January 21, 1974, *FRUS*, Vol. XXXVI, Doc. 283. In fact, there were numerous instances in which Saudi princes explicitly described how Saudi Arabia's diplomacy needed to be deceptive and duplicitous vis-à-vis the "Arab Street": given the unpopularity of the United States vis-à-vis general Arab populations, they had to mix occasional bouts of virulent anti-American rhetoric with a more tacit understanding that close relations with the United States were among the royal family's most essential prerogatives. See, for instance, "Memorandum of Conversation with Saudi Minister of Interior and Second Deputy Prime Minister, Prince Fahd Ibn 'Abd- al-'Aziz al-Sa'ud," July 26, 1973, *FRUS*, Vol. XXXVI, Doc. 189.

live without you altogether, you know."[51] After all, Saudi Arabia was deep in its second round of bilateral negotiations with the French government, which was benefitting from the ongoing breakdown of U.S.-Saudi relations to try to position itself as the preferred partner of the Saudi monarchy.[52] In the end, Kissinger's threatening message was officially withdrawn before reaching Faisal, and a new letter was penned by Nixon expressing regrets that the Saudi-American relationship had reached such an unexpected low point. After Nixon exhorted Faisal to choose America over Syria and the Arab radical camp—antimonarchist and revolutionary regimes that "never had Saudi Arabia's interest at heart"—the confrontation deescalated. Nonetheless, Saudi Arabia had made the point of its indispensability and profound importance to the United States—all while making it clear that it had other potential partners beyond Washington.[53]

And indeed, by early March 1974, competition for OPEC's favors had intensified among industrialized countries. The governments of West Germany and Japan had been vocal in their condemnation of French Foreign Minister Michel Jobert during the Washington Energy Conference, but the lack of any commitment among oil-consuming countries to abstain from bilateral deals allowed them to freely engage in their own increasingly visible negotiations with oil producers. To the dismay of U.S. officials, West Germany and Japan both were following on France's footsteps—with each of these countries counting on the United States' disengagement from bilateral oil diplomacy to vie for the most favorable treatment by Gulf states in order to solve

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[51] "Backchannel Message From the Ambassador to Saudi Arabia (Akins) to Secretary of State Kissinger," February 5, 1974, *FRUS*, Vol. XXXVI, Doc. 303.

[52] "Note pour Monsieur le Premier Ministre sur le prix du pétrole brut acheté par la France dans le cadre du contrat à long terme à conclure avec l'Arabie Saoudite," February 5, 1974, 19830369/1, Minutier du délégué général à l'énergie, 1973-Juin 1974, Archives Nationales de France, Pierrefitte-sur-Seine, France.

[53] "Backchannel Message From the Ambassador to Saudi Arabia (Akins) to Secretary of State Kissinger."

their oil supply and balance of payments problems.[54] In fact, after the high drama of the Washington Energy Conference, it became harder to fathom how a disunited bloc of consumers would ever succeed in pushing back against OPEC. The bilateral option seemed increasingly attractive to address the monetary problems caused by the Oil Price Shock—but it required moving fast in order to compete with the French, who kept the first mover advantage. To add insult to injury, European officials seemed to be mobilizing U.S. policies to their advantage. For instance, by banking on the success of Project Independence—which was supposed to make the U.S. energy self-sufficient—they hoped to improve their negotiation terms with OPEC states: if the United States, as the world's largest oil consumer, successfully pursued the path of energy autarky, falling oil demand would shift the balance of power back in favor of oil importing countries.[55] Hence, the main U.S. policy prerogatives during the Energy Crisis—multilateralism in oil diplomacy, and Project Independence as a path towards domestic energy self-sufficiency—were actually favoring the success of Europe and Japan's bilateral diplomacy to the detriment of Kissinger's world-ordering vision.

West Germany and Japan's decisive entry in the bilateral sphere thus began to erode France's initial edge. Since January 1974, France had moved to establish preferential relationships with three states: Saudi Arabia, Iran, and Iraq—with Michel Jobert traveling to Baghdad in February and signing an Economic and Technical Cooperation Agreement with the Ba'athist

[54] Embassy in Bonn to State Department, "Energy: FRG Flirting with Bilateralism," Telegram 01326, January 24, 1974, 1974BONN01326, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration.

[55] "Note pour les Présidents d'Elf-ERAP et de la C.F.P. sur l'Entretien du 12 Mars 1974 avec le Dr. Reza FALLAH"; "Note pour le Ministre des Affaires Etrangères sur l'étude sur l'évolution de la demande d'énergie et de pétrole jusqu'en 1985," April 25, 1974, 19830369/1, Minutier du délégué général à l'énergie, 1973-Juin 1974, Archives Nationales de France, Pierrefitte-sur-Seine, France; "Remarques sur la position de M. F. Mitterrand dans son étude 'Pour une Vraie Politique de l'Energie'"; "Note pour Monsieur le Premier Ministre sur la Situation Actuelle de la France en Matière d'Energie."

regime on March 12.[56] And yet, pressure increased on all these fronts. In the case of Iran, for instance, the Shah had invited West Germany to establish an intergovernmental agreement since January, which was met with reticence and ambivalence in Bonn. The Federal Republic of Germany (FRG) had consistently backed the U.S. position on oil multilateralism in Rome and in Washington, but it had also refused to foreclose bilateral channels with Tehran.[57] Thus, after the Washington Energy Conference, negotiations between Germany and Iran began picking up steam, and between March 6 and 10, Iranian Prime Minister Amir-Abbas Hoveyda had a productive visit to Bonn. In a series of meetings with Chancellor Willy Brandt, Foreign Minister Walter Scheel, and Finance Minister Helmut Schmidt, as well as with German industrialists in Cologne, the contours of a German-Iranian deal emerged: the FRG would build a 25-million ton oil refinery in Bushehr, in addition to a major petrochemical complex. Many questions remained about the oil price and quantities destined for Germany, as well as on the control over the refinery and the petrochemical plant, but a special gesture was made to the FRG that had not been extended to France: 35 leading German industrialists were invited to an investors conference in Persepolis in late April and early May, by which time they hoped to finalize the bilateral agreement.[58]

In contrast to Germany, the Japanese government had consistently advocated for "reasonable" bilateral arrangements, provided that "they were not disharmonizing or destabilizing

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[56] "Note pour Monsieur le Directeur des Carubrants sur la Visite du Premier Ministre en Irak," August 8, 1974, 19830369/1, Minutier du délégué général à l'énergie, Juin-Septembre 1974, Archives Nationales de France, Pierrefitte-sur-Seine, France.

[57] Embassy in Bonn to State Department, "Energy: FRG Flirting with Bilateralism," January 24, 1974.

[58] "Iranian Prime Minister's Visit to Bonn," Telegram 04098, March 14, 1974, 1974BONN04098, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration.

to the world's economy."[59] Japanese Foreign Minister Masayoshi Ohira's condemnation of Jobert's posture during the Washington Energy Conference did not stem from a rejection of oil bilateralism *per se*, but from the fear that French intransigence might push the international community to take a stronger stance against bilateral negotiations altogether. Hence, Japanese officials had been on a diplomatic charm offensive since January: they toured Arab capitals, discussed their options with Tehran, and Saudi Oil Minister Yamani visited Tokyo to meet with the Prime Minister Kakuei Tanaka.[60] However, it was Iraq that would become Japan's key oil trading partner: in the aftermath of the Energy Conference, Minister of International Trade and Industry Yasuhiro Nakasone traveled to Baghdad with representatives from Mitsubishi and other industrial groups in order to launch official negotiations for the purchase of 160 million tons of oil over ten years. In exchange, Japan would build industrial facilities in Iraq including a new refinery and extend a $1 billion credit to the Iraqi government.[61] Eventually, these projects would be expanded to include a natural-gas processing plant, a fertilizer plant, a cement plant, an aluminum smelter, and a petrochemical complex.[62] Again, another major industrialized economy had followed France's lead and negotiated a major commercial agreement with an OPEC state.

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[59] Embassy in Tokyo to State Department, "GOJ Views on Bilateral Deals and the Energy Conference," Telegram 01127, January 25, 1974, 1974TOKYO01127, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration.

[60] Embassy in Tokyo to State Department, "Kosaka Trip to North Africa and Middle East -- Politics and Aid," Telegram 01784, January 30, 1974, 1974TOKYO01784, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration; Embassy in Tokyo to State Department, "Energy: Yamani in Tokyo," Telegram 01337, January 30, 1974, 1974TOKYO01337, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration.

[61] Embassy in Tokyo to State Department, "Japanese Negotiations with Iraq on Bilateral Oil Deal," Telegram 02473, February 25, 1974, 1974TOKYO02473, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration.

[62] "Japan Pursuing Easier Oil Policy," *The New York Times (1923-Current File)*, April 28, 1974. Embassy in Tokyo to State Department, "Iranian Export Refinery," Telegram 03150, March 8, 1974, 1974TOKYO03150, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration. For context, 1974 was a year of heightened tension and rivalry between Iran and Iraq. Iran opposed Iraq's Ba'athist brand of socialism, its irredentist claims to the Arab-populated

Officials in Washington thus watched from the sidelines as the bilateral solution to the energy crisis prevailed over Kissinger's multilateral schemes. By early March, the dreaded scenario of a global scramble for Middle Eastern oil had fully materialized, with France, West Germany and Japan scoring diplomatic and commercial victories across the Persian Gulf. And with each passing deal, resources were diverted away from American consumers right as petrodollars flowed back to Europe and Japan instead of the United States. Not only this, but the U.S. was far behind all its peers in the bilateral contest and was still marred by the embargo. American officials thereby felt pressured to change course and find their own arrangement with the world's largest oil exporter: Saudi Arabia. The initial objectives involved pushing the monarchy to adjust oil prices to levels compatible with both countries' long-term interests, all while expanding AID development programs in diverse sectors of the Saudi economy—from agriculture and health to petrochemicals—and granting long-term military supply contracts to the Kingdom. In exchange, they expected Saudi Arabia to raise oil production to meet American demand, invest some of their surplus funds in U.S. government and private sector securities, and cover some American R&D costs for the development of new weaponry. From the National Security Council's point of view, this was expected to be a short-term partnership: if Project Independence was successful, the U.S. would not need to import any oil from Saudi Arabia by

region of Khuzestan in southwestern Iran, and its treatment of the Kurds. Meanwhile, Iraq opposed Iran's support for the Kurdish guerillas led by Mustafa Barzani, which fought for autonomy in the Kirkuk oil region, and the Iraqi secularist regime also repressed heightened activism among the Shi'a ulema, which were perceived as an Iranian threat. Tensions would escalate until a tenuous agreement between both countries in 1975. Hence, the budding Japanese-Iraqi partnership would go as far as to arouse anger and condemnation from Iranian Economic Minister Ansari, who demanded equality of treatment between both countries—which would turn into a recurring pattern in these negotiations. With Japan's inability to satisfy both countries equally, talks with Iran unraveled. For an overview of Iranian-Iraqi tensions during this period, see Charles Tripp, *A History of Iraq*, 3rd ed. (Cambridge: University Press, 2007).

1980. However, there was a great sense of urgency in meeting US oil demand for the next two years, which required repairing the wrecked ties between both countries.[63]

Hence, between March 8 and March 11, 1974, American officials began to make moves to mend the relationship as a first and necessary step towards joining the bilateral scramble. The U.S. embassy in Riyadh made diplomatic overtures to the Saudi cabinet, seeking to "overcome [the] impression in Saudi minds that [the] U.S. has lost interest in Saudi Arabia and discounts Saudi views."[64] The embassy then revealed an unprecedented proposal: the creation of joint U.S.-Saudi commissions on economic, technical, and military matters. As the U.S. Ambassador to Riyadh told Saudi Foreign Minister Saqqaf, the United States "had never discussed anything remotely comparable or as important with any other country in the Middle East and rarely with any country anyplace."[65] The reception in Riyadh was described as "euphoric":

> All the Saudis called this initiative the news they had been expecting for 25 years. All said that the U.S. has finally recognized the importance of its interests in the Arab world; all said that the U.S. and Arab economies would be so closely entwined that there could be no turning back and all wanted to move forward as rapidly as possible. [66]

In fact, Hisham Nazer, the head of the Saudi Central Planning Authority, went as far as to state that, "if this project goes through we will have no need for the French or the British or the Japanese. The United States can do everything." In this meeting, the U.S. Embassy promised that Saudi

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[63] "Telegram from the President's Deputy Assistant for National Security Affairs (Scowcroft) and Charles A. Cooper of the National Security Council Staff to Secretary of State Kissinger in Damascus," March 1, 1974, *FRUS*, Vol. XXXVI (Washington, D.C., Doc. 330).

[64] Department of State to Embassy in Manila, "Joint US-Saudi Economic Commissions," Telegram 045027, March 7, 1974, 1974STATE045027, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration.

[65] Embassy in Jeddah to State Department, "Joint US-Saudi Economic Commissions," Telegram 01123, March 8, 1974, 1974JIDDA01123, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration.

[66] Embassy in Jeddah to State Department, "US-Saudi Cooperation: Saudi Enthusiasm," Telegram 01192, March 11, 1974, 1974JIDDA01192, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration.

Arabia would not just play a major role in energy supplies, but also "in world finance in the next 20 years."[67]

And in this context of improving U.S.-Saudi ties, Arab oil ministers finally lifted the embargo against the United States on March 17, 1974, providing relief to global oil supplies all while leaving both countries ready for a new round of discussions on their future relationship. Even if OPEC's price shock remained unchanged, the supply shock had finally been resolved. Moreover, America's tentative move into the bilateral fray would not just be significant for Saudi Arabia—it would be a gamechanger in global oil diplomacy. For months, Kissinger had threatened that "if [Europeans] will not work multilaterally we will force them by going bilateral ourselves."[68] Then, on the lead-up to the Washington Energy Conference, he added that "the participants should have no doubt that if it isn't going to be multilateral, we're going to go our own way; and let's see who's going to win a bilateral contest."[69] With the lifting of the embargo, the time had arrived for the U.S. to show its commercial and diplomatic might. And in an ironic twist of fate, France would be the first country to bear the brunt of America's diplomatic offensive.

Since March 10, Saudi Prince Saud had approached French officials to inquire about whether France could also export nuclear technologies to Saudi Arabia in a new intergovernmental accord inspired by the ongoing negotiations with Iran, in exchange for preferential access to Saudi oil. Chief Energy Delegate Jean Blancard thus set out on a mission to Riyadh between March 25 and 27 to meet with Saudi Princes Saad and Saud. However, on the eve of his departure, Prince Saad canceled his audience. The French delegation then received cold shoulders from officials in

[67] Embassy in Jeddah to State Department.

[68] "Summary of Decisions from Secretary of State's Staff Meeting," January 8, 1974, *FRUS*, Vol. XXXVI, Doc. 279.

[69] "Minutes of the Secretary of State's Staff Meeting," January 31, 1974, *FRUS*, Vol. XXXVI, Doc. 293.

Riyadh, leaving Blancard shocked by this sudden change in Saudi attitudes. Scheduled meetings were delayed until the end of April, leaving him even more confused: Had Saudi Arabia suddenly turned its back on France? In a bout of wishful thinking, he wondered whether this was not a bad sign, but just a testament to how serious the Saudi government was about its cooperation with France—maybe they just needed some additional time to think. But beyond this false comfort, he raised alarms that pro-American factions within the Saudi royal family might be sabotaging the preferential bilateral relationship with France.[70] And indeed, Kissinger's threats were ringing true: the U.S. would win the bilateral contest for Saudi Arabia.

On March 29, Kissinger met with top oilmen from Exxon, Socal, Mobil, Texaco and Gulf Oil in order to discuss the ongoing shift in U.S. policy towards OPEC. Kissinger went on to enumerate the bilateral deals being carried out with OPEC by governments across the world—now counting Argentina, Sweden, India, Thailand, and even Hungary, Poland, and Romania. Exxon Chairman John Kenneth Jamieson bitterly accused the French of being responsible for this state of affairs and seeking to displace the U.S. in the region, "peddling oil that they have in essence stolen from us." Kissinger still hoped that some of these negotiations—especially those between West Germany and Iran—would break down, and he lamented that the world had turned its back on his calls for more cooperative multilateral solutions. This made Jamieson particularly concerned about the loss of U.S. access to Saudi oil: "more and more oil that was Aramco oil is being diverted to these other countries on government-to-government deals. So we are losing effectively oil that was under our control before." Equally important was the fact that these deals were made for the long term and were contractually crystalizing high oil prices as the world's new economic reality—

[70] "Compte-rendu de la mission effectuée en Arabie Saoudite du 25 au 27 mars 1974," March 28, 1974, 19830369/1, Minutier du délégué général à l'énergie, 1973-Juin 1974, Archives Nationales de France, Pierrefitte-sur-Seine, France.

the very situation that Shultz and Kissinger had sought to prevent at all costs in Rome and Washington.[71]

However, facing this *fait accompli*, Kissinger knew that there was little he could do to prevent these negotiations, and Jamieson agreed: "We all know what the French are doing. They just say they are going on this course in spite of everybody." Moreover, the Shah was a "tough cookie," and he continued his efforts to push prices up by calling for even more bilateral agreements. Kissinger and the oilmen thus agreed: if you can't beat them, join them. In a fateful turn of events, Kissinger affirmed his readiness to abandon his strong stance on multilateralism in favor of bilateral deals: after all, "we should not be the first ones to look out for the world community if no one else does." Moreover, from a geopolitical standpoint, each of these deals was granting European countries and Japan a form of leverage over oil producers—and the U.S. was conversely seeing its relative position in the region weaken. U.S. officials understood that, with these deals totaling dozens of billions of dollars, France, West Germany, and Japan were not only restoring their trade balances and securing long-term oil supplies: they were also making OPEC states dependent upon them for goods, services and technologies, allowing them to freeze these projects or hold back industrial supplies in case of new hostilities.[72]

Hence, while the bilateral scramble might be detrimental from a global economic standpoint, the U.S. could not afford to continue losing its geopolitical clout over the Gulf. Kissinger and the oil executives thus decided to focus their efforts on a bilateral agreement with Saudi Arabia to preserve America's influence in the region and benefit the commercial interests of Aramco's corporate shareholders. The way forward would be an unprecedented government-

[71] "Memorandum of Conversation: Secretary's Meeting with Oil Company Executives."

[72] "Memorandum of Conversation: Secretary's Meeting with Oil Company Executives."

to-government preferential oil arrangement with Saudi Arabia, echoing the 1972 deal proposal between both countries:

> The worst is to go along for six months and talk about cooperation while our bilateral options are being foreclosed and our political clout gets dissipated. Right now in Saudi Arabia we still have some unique assets. No one else can give them the intelligence, no one else can give them the political support they need, no one else can give them the military support they need. These are three assets we have that no one else can give them. The French can talk about what they want.[73]

Kissinger proceeded to amplify diplomatic channels with the Saudi monarchy, and earnestly began building his own bilateral partnership in the Gulf—all while turning his back on his previous multilateral initiatives. The Energy Crisis would now be resolved bilaterally, and on the United States and Saudi Arabia's terms. Thus, while the contours of the new relationship remained to be defined, the American embrace of oil bilateralism became visible for the whole world to see. On June 8, 1974, Prince Fahd of Saudi Arabia traveled to Washington to sign a joint statement on U.S.-Saudi cooperation, and a week later, it was Nixon's turn to visit Riyadh, sealing the renewal of these increasingly special ties.[74] France's oil bilateralism had thus succeeded in pushing the United States into a tremendously significant long-term economic and security partnership with Saudi Arabia.

III. France's Nuclear Gamble: Petrodollar Recycling, Reactor Exports, and the Threat of Proliferation in the Persian Gulf

The United States' entry into the bilateral oil scramble caused another shift in France's fortunes in the Persian Gulf. By the time of Nixon's trip to Riyadh, the cards had flipped against France's new President, Valéry Giscard d'Estaing, who had not yet concluded his deal with Iran

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[73] "Memorandum of Conversation: Secretary's Meeting with Oil Company Executives."

[74] "Memorandum from the President's Deputy Assistant for International Economic Affairs (Cooper) and Harold H. Saunders of the National Security Council Staff to Secretary of State Kissinger," June 5, 1974, *FRUS*, Vol. XXXVI, Doc. 353, https://history.state.gov/historicaldocuments/frus1969-76v36/d353.

while his negotiations with Saudi Arabia stalled. Kissinger's warnings had been prescient: the French export sector was not as competitive as those of the United States, West Germany, and Japan; once the race for bilateral deals began, France would find itself outperformed by its industrially superior rivals. Indeed, Saudi Arabia moved into close alignment with the United States, and Iran became the scene of intensifying competition among a growing array of potential suitors. But this rivalry only emboldened French efforts to outmaneuver competitors by exporting some of its highest value-added and most technologically advanced products: nuclear reactors. The Franco-Iranian oil-for-reactors deal would provide a blueprint for future relations with OPEC: in its efforts to resolve its trade deficit, France made the increasingly dangerous gamble of promoting nuclear exports across the Gulf in exchange for petrodollars. This, in turn, threatened the stability of the U.S.-led nuclear world order predicated upon non-proliferation. With both Iran and Iraq acquiring French nuclear technology without categorically renouncing atomic weapons, France's oil-driven nuclear export drive showcased the inadequacies of the Non-Proliferation Treaty (NPT) in addressing the potential connections between civilian and military nuclear programs.

After an initial wave of optimism, officials in Paris grew increasingly frustrated by the apparent lack of interest among oil producers for preferential or exclusive trade agreements with France, and it was now Giscard's turn to watch from the sidelines as American, German, and even Indian officials were welcomed in Iran. Prompted by Franco-Iranian nuclear negotiations, U.S. diplomats made their own overtures to the Shah in March and April, when Kissinger proposed the creation of a Joint Economic Commission as he had done with Saudi Arabia. In line with the Shah's industrialization plans, Kissinger offered a breadth of potential partnerships in the fields of mechanical engineering, electronics, water desalinization, solar power, military industries, and—most notably—peaceful nuclear energy, positioning the U.S. as a direct competitor of France. Then, between April and May, Bonn moved forward with its oil deal with Tehran: The German investors' conference at Persepolis raised the prospects for about ten new industrial projects in Iran—with plans continuing for the massive refinery in Bushehr, whose oil output would be preferentially reserved for German ports.[75] Finally, in May, it was Indian Prime Minister Indira Gandhi's turn to visit Tehran. In a grandiose spectacle at Niavaran Palace symbolizing the rebirth of the great empires of India and Persia, Gandhi and the Shah negotiated a new energy partnership that also included nuclear assistance.[76] Hence, not only did the Shah oppose any bilateral exclusivity, but these deals were diverting limited oil supplies away from France, whose officials were bogged down in the most complex negotiations of all—short-term oil for long-term nuclear reactors.[77]

And then came an event that profoundly challenged the wisdom of exporting reactors to the Gulf. On May 18, 1974, just a couple of weeks after Indira Gandhi's visit to Tehran, India achieved its first successful—allegedly "peaceful"—atomic bomb test in the Rajasthan Desert. [78]

[75] Embassy in Bonn to State Department, "FRG/Iran Economic Relations," Telegram 07347, May 7, 1974, 1974BONN07347, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration, https://aad.archives.gov/aad/createpdf?rid=107755&dt=2474&dl=1345.

[76] Embassy in New Delhi to State Department, "Indians See Mrs. Gandhi's Iran Visit as Great Success," Telegram 06431, May 15, 1974, 1974NEWDE06431, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration, https://aad.archives.gov/aad/createpdf?rid=95672&dt=2474&dl=1345; Embassy in Tehran to State Department, "Mrs. Gandhi's Visit to Iran," Telegram 03593, May 6, 1974, 1974TEHRAN03593, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration, https://aad.archives.gov/aad/createpdf?rid=98336&dt=2474&dl=1345. For a firsthand account of the visit by Gandhi's Science and Technology Advisor, see Ashok Parthasarathi, "Oil Shock and Surprise," *Frontline (The Hindu)*, February 16, 1974, https://frontline.thehindu.com/the-nation/oil-shock-and-surprise/article10055609.ece.

[77] For an analysis of buyers' strategic ability to pit suppliers against each other in the global nuclear market, see Eliza Gheorghe, "Proliferation and the Logic of the Nuclear Market," *International Security* 43, no. 4 (2019): 88–127, https://doi.org/10.1162/isec_a_00344; Jeff D. Colgan and Nicholas L. Miller, "Rival Hierarchies and the Origins of Nuclear Technology Sharing," *International Studies Quarterly* 63, no. 2 (2019): 310–21, https://doi.org/10.1093/isq/sqz002.

[78] The Indian government hailed the nuclear explosion as a scientific breakthrough for the Third World, all while claiming that it was carried out for peaceful purposes; however, it aroused international concern, most notable from Pakistan. See Embassy in New Delhi to State Department, "India's Nuclear Explosion: Swaran Singh Statement," Telegram 06785, May 22, 1974, 1974NEWDE06785, Central Foreign Policy Files, 1973- 79/Electronic Telegrams,

Codenamed operation Smiling Buddha, this explosion revealed the thin line that separated civilian nuclear power generation from the development of nuclear weapons—which defied the view that the safeguards enshrined by the NPT were sufficient, and led Nixon to call for a thorough review of U.S. nonproliferation policy.[79] Ironically, the situation was made more complex by Nixon's own controversial announcement, during the first U.S. presidential visit ever to both Jerusalem and Cairo in June 1974, that he would sell civilian nuclear reactors to Israel and Egypt.[80] In this context, the National Security Council made a series of recommendations on June 24, calling for an intensified national policy to "inhibit the further spread of independent nuclear weapons capabilities" by advocating for stricter adherence to the NPT, collaborating more closely with the International Atomic Energy Agency (IAEA), and reinforcing ties with the other suppliers of nuclear materials and equipment—such as the U.K., Canada, France, West Germany and Japan.[81]

But France promised once again to stand out as the dissonant note in Western cooperation. Unlike other major nuclear exporters, it refused to sign the NPT, so the NSC advised Nixon to pressure Giscard to collaborate—especially when it came to "troubled areas" of the world. The NSC also expressed support for a limitation of U.S. exports of enriched uranium, which could add

RG 59: General Records of the Department of State, U.S. National Archives and Records Administration, https://aad.archives.gov/aad/createpdf?rid=108765&dt=2474&dl=1345.

[79] "National Security Study Memorandum 202: Nuclear Non-Proliferation Treaty," May 23, 1974, General CIA Records, ESDN (CREST): CIA-RDP81B00080R001600010011-2, CIA Freedom of Information Act Electronic Reading Room, https://www.cia.gov/readingroom/docs/CIA-RDP81B00080R001600010011-2.pdf.

[80] The U.S. considered its Light-Water Reactor technology to be safe from a nonproliferation standpoint; however, the sale of reactors to Israel and Egypt remained contentious and would never see the light of day. While civilian nuclear power might have been desirable to Israel for desalination purposes, Nixon's announcement brought at an uncomfortable spotlight upon Israel's policy of nuclear ambiguity. Moreover, Yitzchak Rabin worried that this offer could allow Egypt to develop nuclear weapons and compromise Israel's security. See Or Rabinowitz, "Signed, Sealed but Never Delivered: Why Israel Did Not Receive Nixon's Promised Nuclear Power Plants," *International History Review* 40, no. 5 (2018): 1014–33, https://doi.org/10.1080/07075332.2018.1436581.

[81] NSC Under Secretaries Committee, "Memorandum for the President: National Security Study Memorandum 202: U.S. Non-Proliferation Policy," June 24, 1974, General CIA Records, ESDN (CREST): CIA-RDP81B00080R001600010001-3, CIA Freedom of Information Act Electronic Reading Room, https://www.cia.gov/readingroom/docs/CIA-RDP81B00080R001600010001-3.pdf.

an additional safeguard against proliferation.[82] This policy shift would create a new rift in Trans-Atlantic relations, pitting the United States' goals of ensuring non-proliferation against France's (and West Germany's) nuclear export drives.[83] Thus, what had begun as a bilateral deal to resolve France's challenges of oil scarcity and trade deficits became entangled in the intricate question of nuclear non-proliferation.

In this tense context, Mohammad Reza Shah sent shockwaves of consternation across the world when he arrived in Paris to sign the nuclear deal. On June 23, in an interview with the French weekly *Les Informations*, the Shah hailed the Franco-Iranian agreements as the "most important ever signed between an oil producing and an industrialized country," with a long-term potential that could allegedly exceed ten billion dollars in trade. He also mentioned that the deal was particularly important for France now that "certain Arab countries are closed to them, especially after Nixon's visit to Riad [sic]." And then came the bombshell remarks: when asked if he intended to possess nuclear weapons in the future, he allegedly replied "certainly, and sooner than is believed."[84] On the following day, Iranian state agencies issued strongly worded denials of these comments as fabricated lies, but they could not undo the concerns about the Shah's true intentions for Iran's nuclear program.[85] And again, on June 25, the Shah gave another interview to *Le Monde*

[82] NSC Under Secretaries Committee.

[83] Sarkar, "U.S. Policy to Curb West European Nuclear Exports, 1974–1978." For broader historical overviews of U.S. efforts for nuclear non-proliferation during the Cold War, see Gavin, "Nuclear Proliferation and Non-Proliferation during the Cold War"; Gavin, *Nuclear Statecraft*; Francis J. Gavin, "Politics, History and the Ivory Tower-Policy Gap in the Nuclear Proliferation Debate," *Journal of Strategic Studies* 35, no. 4 (2012): 573–600, https://doi.org/10.1080/01402390.2012.715736; Francis J Gavin, "Strategies of Inhibition: U.S. Grand Strategy, the Nuclear Revolution, and Nonproliferation," *International Security* 40, no. 1 (2015): 9–46, https://doi.org/10.1162/ISEC_a_00205.

[84] Embassy in Paris to State Department, "Interview with Shah," June 24, 1974, 1974PARIS15305, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration, https://aad.archives.gov/aad/createpdf?rid=127628&dt=2474&dl=1345.

[85] Embassy in Tehran to State Department, "Shah's Alleged Statement on Nuclear Weapons," June 25, 1974, 1974TEHRAN05192, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the

that only added to the confusion. He proclaimed his steadfast desire for a "non-nuclear" Middle East—especially given prospective U.S. sales of nuclear reactors to Egypt and Israel—but at the same time, he said that if any neighboring country sought nuclear arms, "the national interests of any country at all would demand that it do the same."[86] Given the Shah's refusal to categorically renounce atomic weapons, the imminent Franco-Iranian deal seemed like a dangerous gamble.

And yet, none of these considerations deterred the French government, which was bent on finalizing its long-awaited signature. After all, France had traditionally challenged U.S. nonproliferation policies and had not signed the NPT; in a characteristic Gaullist fashion, French officials believed that they could ensure non-proliferation safeguards bilaterally.[87] Moreover, the French Atomic Energy Commission had already aided Israel in developing its nuclear weapons program in the late 1950s,[88] and was on the verge of selling very sensitive nuclear technologies to South Africa, Pakistan, and South Korea.[89] Hence, far from the threat of nuclear proliferation, the deal's main problem was the absence of any additional Iranian oil counterpart for France's reactors. By the time of its signature on June 27, there remained little oil for the Atom-Petroleum Exchange to merit its name: even after pleas from Prime Minister Jacques Chirac at an official luncheon at

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Department of State, U.S. National Archives and Records Administration, https://aad.archives.gov/aad/createpdf?rid=133701&dt=2474&dl=1345.

[86] Embassy in Paris to State Department, "Further Remarks by Shah on Nuclear Weapons," June 25, 1974, 1974PARIS15445, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration.

[87] For overviews of French nonproliferation policy, see Georges-Henri Soutou, "La France et la non-prolifération nucléaire," *Revue historique de l'armée*, 2011, 35–45; Florent Pouponneau and Frédéric Mérand, "Diplomatic Practices, Domestic Fields, and the International System: Explaining France's Shift on Nuclear Nonproliferation," *International Studies Quarterly* 61, no. 1 (2017): 123–35, https://doi.org/10.1093/isq/sqw046.

[88] For the connections between the French and Israeli nuclear weapons programs, see Gadi Heiman, "Diverging Goals: The French and Israeli Pursuit of the Bomb, 1958–1962," *Israel Studies (Bloomington, Ind.)* 15, no. 2 (2010): 104–26, https://doi.org/10.2979/ISR.2010.15.2.104.

[89] For context on these projects, see Anna Konieczna, "Nuclear Twins: French-South African Strategic Cooperation (1964-79)," *Cold War History* 21, no. 3 (2021): 283–300, https://doi.org/10.1080/14682745.2020.1823968; Sarkar, "U.S. Policy to Curb West European Nuclear Exports, 1974–1978," pp. 124-127.

the *Palais de Matignon*, the Shah insisted that he had no additional oil supplies for France. With Iran's growing number of bilateral agreements, other countries such as West Germany had been quicker to reserve their shares of Iranian oil, and he had to keep some supplies available for the developing world. However, he had some potential good news: after private discussions with Giscard, the Shah summoned his Minister of the Economy and Finance Hushang Ansari to Paris to discuss the prospects for financial cooperation.[90] After all, Iran may not have had extra oil supplies, but it certainly had billions of petrodollars that could be placed in France.

But, to repeat the oilmen's words, the Shah was indeed a "tough cookie": he rejected the proposal for a petrocurrency recycling mechanism in French francs—a currency that was depreciating to the U.S. dollar—forcing the French government to open a dollar account in the Banque de France for the government of Iran. The Shah also refused to place any set amount of petrodollars in this account beyond pre-payments for future nuclear purchases.[91] And he did not just want to hold Iran's surplus revenues in foreign bank accounts, but to invest them in equity—a prospect that aroused much unease among European governments.[92] In fact, in contrast to bank

[90] "Note pour Monsieur le Ministre de l'Industrie et de la Recherche sur l'Accord Franco-Iranien dans le Domaine de l'Energie," June 25, 1974, 19830369/1, Minutier du délégué général à l'énergie, Juin-Septembre 1974, Archives Nationales de France, Pierrefitte-sur-Seine, France.

[91] "Note sur les Premiers Résultats de la Mission Electronucléaire Française en Iran," June 14, 1974, 19830369/1, Minutier du délégué général à l'énergie, Juin-Septembre 1974, Archives Nationales de France, Pierrefitte-sur-Seine, France; "Note pour Monsieur le Ministre de l'Industrie et de la Recherche sur l'Accord Franco-Iranien dans le Domaine de l'Energie," June 20, 1974, 19830369/1, Minutier du délégué général à l'énergie, Juin-Septembre 1974, Archives Nationales de France, Pierrefitte-sur-Seine, France; "Projet d'Accord entre l'Iran et la France dans le Domaine de l'Energie," June 19, 1974, 19830369/1, Minutier du délégué général à l'énergie, Juin-Septembre 1974, Archives Nationales de France, Pierrefitte-sur-Seine, France.

[92] The prospect of massive investments from OPEC states into European economies raised alarms, especially if they entailed the acquisition of equity participation in European companies. The Shah actually prioritized financial cooperation with the United Kingdom rather than France, as he sought to turn Tehran into a global financial center of stature, and he hoped that closer links with the City of London would help with the transfer of financial know-how. But while British officials were comfortable with the prospect of Iran extending a credit line to the United Kingdom, they were much more reticent to see the Iranian government become a major shareholder in British firms—a situation that was not only novel, but that also risked exposing the Iranian government to sensitive corporate information and to allow an OPEC state to achieve potentially unprecedented levels of control over the decisions of British firms. The British government thus sought to limit inward Iranian equity investments to

deposits or loans, equity investments would actually give the Iranian government potential decision power within European companies, along with access to potentially sensitive corporate, scientific and technological information. Thus, on the eve of the signature ceremony, Chief Energy Delegate Jean Blancard expressed qualms that France had gotten the short end of the deal.[93]

And yet, the French government still hailed the Franco-Iranian nuclear agreement as an unprecedented triumph. For instance, the first orders to the nuclear engineering contractor Framatome (later known as Areva) for two 950MW reactors at Darkhovin would bring France payments of at least a billion dollars, with the full prospective supply of reactors for 5,000MW potentially reaching four billion dollars.[94] The deal may not have secured oil shipments, but with the end of the embargo, security of supply had become secondary to the monetary problems generated by the oil price shock, and especially the prospects for an economic recession. In this regard, the deal promised a long-term inflow of billions of Iranian petrodollars that could help redress France's trade deficits while stimulating economic activity. Moreover, these petrodollars would help finance Framatome's domestic construction of new nuclear reactors—easing the implementation of the Messmer Plan and clearing the path for the country's long-sought energy independence.[95] This agreement would be France's flagship bilateral deal, to be replicated with other OPEC states: it became official state policy for France to develop a "nuclear presence" in

portfolio investments capped at 10% of shares. See "Inward Investment from Iran," July 16, 1974, FCO 8/2283, Use of Surplus Oil Revenues as Proposed by Iran, 1974, The National Archives, Kew, United Kingdom.

[93] "Note pour Monsieur le Ministre de l'Industrie et de la Recherche sur l'Accord Franco-Iranien dans le Domaine de l'Energie," June 25, 1974.

[94] "Note pour Monsieur le Ministre sur l'Accord nucléaire franco-iranien," October 8, 1974, 19830369/2 - Minutier délégué général à l'énergie, Octobre-Decembre 1974, Archives Nationales de France, Pierrefitte-sur-Seine, France; "Note sur une prise de participation de l'Iran dans EURODIF I," October 4, 1974, 19830369/2 - Minutier délégué général à l'énergie, Octobre-Decembre 1974, Archives Nationales de France, Pierrefitte-sur-Seine, France.

[95] "Note pour Monsieur le Ministre de l'Industrie et de la Recherche sur les Négociations avec Westinghouse," February 21, 1975, ANF 19830368 2 - Minutier délégué général à l'énergie 1975 janvier-fevrier, Archives Nationales de France, Pierrefitte-sur-Seine, France.

oil-producing countries through the joint efforts of diplomats, industrialists and the *Commissariat à l'Energie Atomique*, with nuclear technologies rising as the most promising French exports that could redress the monetary and economic troubles triggered by the First Oil Shock.[96]

However, this policy destabilized the Persian Gulf: it emboldened Iran's ambitions to master the entire nuclear cycle, aroused commercial competition among Western nuclear suppliers, and made other regional players covet atomic programs of their own. Even before the deal's signature, the Iranian government was already eyeing towards its expansion: Prime Minister Amir-Abbas Hoveyda informed French negotiators that he wanted to get Iran involved in the uranium enrichment business by investing in EURODIF—a French-based European consortium established in November 1973 to build France's first commercial uranium enrichment plant.[97] Hoveyda's suggestion that Iran should become a shareholder in EURODIF was met with both surprise and ambivalence—this was, after all, a very sensitive program. But French doubts turned into apprehension when Hoveyda half-jokingly mentioned that Iran had enough petrodollars to acquire a 22.5% share in the consortium, so if France did not make an offer, he would just go and purchase these shares from Italy. Blancard saw some merit in using this as an additional bargaining chip to get better oil and financial counterparts for the bilateral deal, but he wanted to limit Iranian shares to 3.5%. He was also concerned by the prospect of similar demands from other Gulf countries such as Saudi Arabia.[98] After all, uranium enrichment was one of the key gateways towards the

[96] "Présence Nucléaire Française en Irak," November 25, 1974, 19830369/2 - Minutier délégué général à l'énergie, Octobre-Decembre 1974, Archives Nationales de France, Pierrefitte-sur-Seine, France.

[97] EURODIF had public capital from France, Belgium, Italy, Spain and and Sweden, and competed with URENCO, a rival German-British-Dutch consortium. It was meant to decrease French reliance on American or Soviet uranium enrichment services. "Note pour Monsieur Giraud, Administrateur Général Délégué du Commissariat à l'Energie Atomique, sur la Production d'Uranium Enrichi de l'Usine EURODIF," June 28, 1974, 19830369/1, Minutier du délégué général à l'énergie, Juin-Septembre 1974, Archives Nationales de France, Pierrefitte-sur-Seine, France.

[98] "Note pour Monsieur le Ministre de l'Industrie et de la Recherche sur l'Accord Franco-Iranien dans le Domaine de l'Energie," June 20, 1974, 19830369/1, Minutier du délégué général à l'énergie, Juin-Septembre 1974, Archives Nationales de France, Pierrefitte-sur-Seine, France; "Note pour Monsieur l'Administrateur Général du Commissariat

development of nuclear arms: the same facilities that produced low-enriched uranium for power generation could also yield highly-enriched weapons-grade uranium, so control over uranium enrichment was—and remains—one of the key safeguards for nonproliferation.[99]

And yet, there were potential synergies between the French and Iranian nuclear programs. After signing the deal, French officials quickly began pondering the potential benefits of opening up EURODIF to Iranian capital. In fact, France was committed to supplying Iran with enriched uranium, which could be done through the consortium. Also, Sweden had relinquished its 10% share in the consortium, potentially opening space for Iran. And with the U.S. seeking to curb its exports of enriched uranium—the U.S. Atomic Energy Commission would suspend the signature of new long-term enrichment contracts in July 1974[100]—it became even more urgent to accelerate the plant's construction.[101] An injection of Iranian petrodollars could be just what EURODIF needed, all while securing Iran's future position as an export destination for France's enriched uranium output, and meeting the Shah's ambitions to recycle petrodollars through capital and portfolio investments in Europe. But doubts remained: could this set a precedent for Saudi Arabia—or even worse, for radical states like Libya?[102]

This was particularly important given Saudi Arabia's previous requests for French nuclear technologies. In fact, during the Shah's visit to Paris, the Saudi Vice-Minister of Oil was also

à l'Energie Atomique," June 21, 1974, 19830369/1, Minutier du délégué général à l'énergie, Juin-Septembre 1974, Archives Nationales de France, Pierrefitte-sur-Seine, France.

[99] Uranium isotope U-235 can be used both for peaceful purposes such as nuclear power and for the production of nuclear weapons, the main difference being the level of abundance of U-235 versus the more common U-238 isotope. Light Water Reactors for power generation require uranium enriched to 5% abundance of U-235, while nuclear weapons require uranium enriched to at least 80% (considered "weapons-grade"). However, it is the same technology that produces both levels of enrichment.

[100] Sarkar, "U.S. Policy to Curb West European Nuclear Exports, 1974–1978," p. 113.

[101] "Note pour Monsieur Giraud, Administrateur Général Délégué du Commissariat à l'Energie Atomique, sur la Production d'Uranium Enrichi de l'Usine EURODIF."

[102] "Note sur une prise de participation de l'Iran dans EURODIF I."

invited to the *Commissariat à l'Energie Atomique*—hoping that the successful Iranian deal would encourage the Saudi monarchy to acquire its own nuclear program. But again, French officials were disappointed as the Saudi Vice-Minister left Paris without any concrete proposals.[103] Little did they know that, just three days prior, a Saudi official had approached the U.S. Ambassador in Jeddah to request American nuclear assistance. Unlike Iran, Saudi Arabia was looking for an exclusive partnership—not with France, but with the United States.[104] Competition among Western countries for nuclear exports to the Gulf grew hand in hand with OPEC's ambitions: within a few months, Iran, Saudi Arabia, and Kuwait all approached the United States seeking reactors.[105]

But these burgeoning requests from the Middle East were met with apprehension by the U.S. government, which faced a dilemma: it had a vested interest in nonproliferation, but there were major economic and commercial benefits to engaging in nuclear trade—especially with a looming global recession. U.S. officials sought to strike a delicate balance between limiting the spread of nuclear technologies into new states—such as Saudi Arabia—and becoming involved in

[103] "Note pour Monsieur le Ministre de l'Industrie et de la Recherche sur la Visite du Vice-Ministre du Pétrole et des Resources Minérales d'Arabie Saoudite," June 26, 1974, 19830369/1, Minutier du délégué général à l'énergie, Juin-Septembre 1974, Archives Nationales de France, Pierrefitte-sur-Seine, France.

[104] Embassy in Jeddah to State Department, "Saudi Interest Expressed in US-Saudi Nuclear Agreement," Telegram 03609, June 24, 1974, 1974JIDDA03609, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration, https://aad.archives.gov/aad/createpdf?rid=123562&dt=2474&dl=1345.

[105] It must be noted that non-OPEC countries in the region also requested nuclear assistance from the U.S. in 1974, most notably Israel and Egypt. This may also have influenced competing demands in the region, even if the conversations with Egypt in particular remained at very initial stages, focusing exclusively on safety protocols before the onset of any talks on nuclear sales. See State Department to Embassy in Tehran, "US-Iran Cooperation," Telegram 220253, May 28, 1974, 1974STATE220253, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration, https://aad.archives.gov/aad/createpdf?rid=219266&dt=2474&dl=1345; Embassy in Kuwait to State Department, "Kuwaiti Interest in Atomic Energy and Conversion of Sea Water," Telegram 03297, August 6, 1974, 1974KUWAIT03297, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration, https://aad.archives.gov/aad/createpdf?rid=173852&dt=2474&dl=1345.

the programs launched by rival nuclear suppliers—as was the case with Iran. Hence, the State Department concluded that it would be technologically "premature" for Saudi Arabia to develop a nuclear sector and the United States would not prioritize it. And yet, this could not stand in the way of a new special relationship with Saudi Arabia. As a solution, U.S. officials would make empty promises to the monarchy while drowning nuclear discussions within the broader work of the U.S.-Saudi Joint Working Group on Technology, Research and Development. The United States would actively delay a Saudi nuclear program—hopefully until they lost interest—treading carefully not to arouse anger or suspicion from their Saudi counterparts.[106]

The Iranian case, however, was much more complex given that the U.S. lacked an equivalent level of exclusivity with the Shah. The U.S. Atomic Energy Commission (AEC) was ready to provide power reactors to Iran—and hopefully many more than France—but the Department of Defense worried about the need for proper controls beyond those internationally-established by the IAEA. In view of the Indian explosion and the Shah's remarks in Paris, Defense officials wanted to ensure that Iran would not be able to develop nuclear arms, which would require additional bilateral controls and inspections along with accountability measures with regards to enriched uranium supply contracts, the physical security of reactors, and the disposal of residual plutonium—a radioactive waste that could also be used to develop atomic bombs.[107] In fact,

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[106] State Department to Embassy in Jeddah, "Saudi Interest in Nuclear Agreement," Telegram 138121, June 27, 1974, 1974STATE138121, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration, https://aad.archives.gov/aad/createpdf?rid=118231&dt=2474&dl=1345.

[107] In addition to enriched uranium, nuclear warheads can be made with the plutonium isotope Pu-239 enriched at 97% versus the more common isotope Pu-241. All uranium reactors produce plutonium as radioactive nuclear waste, but the longer the cycle runs, the lower the residual proportion of Pu-239: after 3 months running, the residual waste of a uranium reactors contains weapons-grade plutonium enriched at 93%; after one or two years of continuous operation, however, it has fallen below 83% and cannot be used for nuclear weapons. Hence, uranium power reactors must be controlled in terms of their length of operations and the management of plutonium waste to ensure their strictly civilian usage. For further explanations in lay terms, see Martin Sevior, "Uranium, Plutonium, Heavy Water ... Why Iran's Nuclear Deal Matters," *The Conversation*, November 25, 2013, http://theconversation.com/uranium-plutonium-heavy-water-why-irans-nuclear-deal-matters-20694.

Defense officials noted that, if Iran installed 20,000 MW worth of reactors, its annual plutonium production would be equivalent to that of 600 to 700 nuclear warheads.[108]

But instituting more stringent bilateral protocols than the usual IAEA safeguards was likely to arouse the Shah's outrage and be interpreted as a sign of mistrust, which could create diplomatic hurdles and harm the U.S. nuclear export sector. After all, OPEC states had been emboldened in their drive towards resource sovereignty, so it was unlikely that the Shah would accept potentially humiliating controls that would not be equally applied to the industrialized world. Moreover, the Shah had mentioned that he was willing to give most of Iran's nuclear contracts to the U.S.—more than the 5,000 MW promised to France. Nonetheless, the Department of Defense still advocated for additional safeguard protocols to be imposed on Iran. Defense officials did not take for granted the long-term stability of the Shah's rule, expressing concern about potential eruptions of domestic dissent, and the risk for anti-American factions to seize fissile materials. A prescient report to the Secretary of Defense prophesized that "an aggressive successor to the Shah might consider nuclear weapons the final item needed to establish Iran's complete military dominance of the region." Stringent bilateral safeguards could be an important line of defense against such scenarios—no matter if the Shah saw them as an insult to Iran's stature as a responsible regional power.[109]

But this raised a major problem: even the most robust safeguards would be useless if only the United States applied them. If anything, this could hurt American commercial competitiveness without addressing the risk of nuclear proliferation. The situation was more urgent given that West Germany also saw nuclear exports as a potential solution for maintaining trade balances amidst

[108] Office of Assistant Secretary of Defense for International Security Affairs to Secretary of Defense, "Nuclear Energy Cooperation with Iran (U) - Action Memorandum," June 1974, The Nuclear Vault, National Security Archive, George Washington University, https://nsarchive2.gwu.edu/nukevault/ebb268/doc02.pdf.

[109] Office of Assistant Secretary of Defense for International Security Affairs to Secretary of Defense.

the oil price shock. In fact, the West German nuclear export sector had issues of its own: unlike France, Germany had witnessed the growth of a massive anti-nuclear grassroots movement, drawing throngs of protestors to the streets in opposition to the construction of new reactors. This severely limited the potential domestic market for Siemens and its nuclear subsidiary—the Kraftwerk Union, which held a monopoly on the country's nuclear contracts. Thus, West Germany also refused to sign the NPT and pushed aggressively for reactor exports to maintain the Kraftwerk Union's revenues, setting its eyes on Iran as a potential commercial outlet.[110]

By October 1974, French officials grew concerned by the speed at which German diplomats and industrialists were seeking to displace France as Iran's preferred nuclear supplier. In fact, the Kraftwerk Union was negotiating the sales of two 1,300 MW reactors at Bushehr—a complement to the refinery complex to be established in this city through the German bilateral oil deal in May. This prospect alarmed Jean Blancard, who finally warmed up to the idea of allowing Iran into EURODIF to protect France's leadership in the Iranian nuclear program.[111] As EURODIF was facing severe financial difficulties, France could indeed welcome a new partner in Iran.[112] But this would come with a high price tag: in order to buy the right to acquire 10% of EURODIF, Iran

[110] Sarkar, "U.S. Policy to Curb West European Nuclear Exports, 1974–1978," pp. 120-122.

[111] "Note pour Monsieur le Ministre sur l'Accord nucléaire franco-iranien." Again, this episode illustrates how nuclear buyers are able to pit suppliers against each other to acquire sensitive technologies, as explained in Gheorghe, "Proliferation and the Logic of the Nuclear Market."

[112] EURODIF was financially challenged by the loss of Sweden's 10% shareholding position, along with Italy's inability to meet its financial obligations to the consortium amid an economic recession, but this did not deter France from trying to force Iran into a more exclusive and preferential partnership in exchange for participation in EURODIF, demanding, for instance, to receive at least half of the country's total nuclear contracts—to no avail. In its negotiations, the French government would exaggerate the troubles posed by Iran's accession to EURODIF: it would bring France's share in the company to a bare majority of 50.14% and turn a client into a partner—resulting in revenue losses. The deal could also stimulate similar demands from other countries in the region such as Saudi Arabia and Libya, and this nonproliferation risk was also used as a bargaining tool against the Shah. In return, the Shah would receive the equity investment opportunities that he desired, all while ensuring Iran's security of supplies in enriched uranium at preferential commercial terms and gaining the political prestige of becoming a global supplier not just of oil, but also of nuclear fuels. "Note sur une prise de participation de l'Iran dans EURODIF I."

had to extend a one-billion-dollar loan to France[113]—allowing even more petrodollars to finance the Messmer Plan.[114] Thus, by the end of 1974, Iran had acquired four nuclear reactors along with shares in the uranium enrichment business—all by leveraging its prized petrodollar reserves amidst the monetary challenges posed by OPEC's oil price shock.

But Iran's successful nuclear ventures aroused the jealousy of its main regional rival: the revolutionary Ba'athist regime in Iraq. Since August 1974, the Iraqi government had accused France of giving more favorable treatment to its neighbors Iran and Saudi Arabia, and of infringing on the terms of their bilateral deal. In fact, in March 1974, the *Compagnie Française des Pétroles* (CFP) had been awarded preferential treatment in exchange for carrying out agricultural development projects in Iraq, but this program suddenly seemed insignificant compared to France's nuclear overtures to Iran and Saudi Arabia. The Iraqi government thus threatened to expel the CFP from Iraq altogether unless Paris stepped up the terms of its relationship with Baghdad.[115] With these veiled demands for reactors, the French state devised its second successful nuclear deal with an OPEC state, now with Iraq.

Unbeknown to the U.S. embassy in Paris, Iraq requested French support for the construction of a Heavy-Water Reactor—a puzzling request, given that France's reactor fleet

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[113] The Iranian share was watered down within a Franco-Iranian company called SOFIDIF (Société Franco-Iranienne pour l'Enrichissement de l'Uranium par Diffusion Gazeuse), which in turn became a shareholder in EURODIF. See Jacob Darwin Hamblin, "The Nuclearization of Iran in the Seventies," *Diplomatic History* 38, no. 5 (2014), pp. 1124–25.

[114] "Note pour Monsieur le Ministre de l'Industrie et de la Recherche sur le Financement d'EURODIF," October 31, 1974, 19830369/2 - Minutier délégué général à l'énergie, Octobre-Decembre 1974, Archives Nationales de France, Pierrefitte-sur-Seine, France; "Note pour Monsieur le Ministre de l'Industrie et de la Recherche sur le Voyage en Iran," November 15, 1974, 19830369/2 - Minutier délégué général à l'énergie, Octobre-Decembre 1974, Archives Nationales de France, Pierrefitte-sur-Seine, France; "Les relations franco-iraniennes dans le domaine de l'Energie," December 20, 1974, 19830369/2 - Minutier délégué général à l'énergie, Octobre-Decembre 1974, Archives Nationales de France, Pierrefitte-sur-Seine, France.

[115] "Note pour Monsieur le Directeur des Carburants," August 8, 1974, 19830369/1, Minutier du délégué général à l'énergie, Juin-Septembre 1974, Archives Nationales de France, Pierrefitte-sur-Seine, France.

consisted of Light-Water Reactors, which were understood to be safer from a nonproliferation standpoint. In contrast, Heavy-Water Reactors, such as those used in India, were easier to repurpose for military aims: it was much easier to extract weapons-grade plutonium from their nuclear waste.[116] But while this certainly raised eyebrows, French officials decided to move forward with the request, and in December 1974, Prime Minister Jacques Chirac visited Baghdad, leaving U.S. diplomats baffled about the passing-mention of "peaceful atomic energy" projects as a potential field of French-Iraqi cooperation.[117] This came at a time when the U.S. National Security Council judged that "the proliferation problem [was] at a crucial juncture," requiring intensified efforts from the U.S. to coordinate policies and priorities with key nuclear suppliers in order to "inhibit the further spread of independent nuclear explosive capabilities." Thus, while France was moving forward with the development of a high-risk Iraqi nuclear program, the NSC recommended "for the advanced nuclear industrial states to tighten controls on weapon-usable material and related production capabilities,"[118] through joint international efforts by what would eventually become the Nuclear Suppliers Group.[119]

[116] "Présence Nucléaire Française en Irak." The most well-known Heavy-Water Reactor is the CANDU reactor under joint British and Canadian license. This is different from the Light-Water Reactors (LWR) developed by Westinghouse, which was the most prevalent technology and France and was exported to Iran. HWR technology can use natural uranium instead than enriched uranium as fuel—which makes it more difficult to ensure safeguards in terms of fuel supplies. Moreover, weapons-grade plutonium can be extracted from HWR nuclear waste while the reactor is running, which also makes it more challenging for the IAEA to ensure that no plutonium is diverted for military purposes. In fact, India used CANDU reactors to develop its first nuclear bomb, which raised alarms about the risk that Heavy-Water Reactors posed additional proliferation risks.

[117] Embassy in Paris to State Department, "Prime Minister's Chirac Visit to Iraq," Telegram 29667, December 10, 1974, 1974PARIS29667, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration.

[118] NSC Under Secretaries Committee, "Memorandum for the President: U.S. Nuclear Non-Proliferation Policy," December 4, 1974, The Nuclear Vault, National Security Archive, George Washington University, https://nsarchive2.gwu.edu/nukevault/ebb268/doc03.pdf.

[119] The Nuclear Suppliers Group was a multilateral nuclear export control regime established in 1975, initially grouping seven major nuclear technology-exporting countries (the U.S., Canada, the U.K., France, West Germany, Japan and the Soviet Union). The group began meeting in London between 1975 and 1978 to agree on a set of nuclear export guidelines. It served as a way for the U.S. to harmonize nuclear export policies with countries that did not adhere to the NPT, such as France. See Burr, "A Scheme of 'Control.'"

The NSC singled out France as a country whose nuclear export policy had to be brought under the control of a multilateral regime. However, this would prove to be deeply divisive within the French government—and especially as it came to the already-contentious negotiations with Iraq. French Foreign Ministry officials signaled from the start that they would be opposed to any "multinational rule-making structures," and that they could ensure nonproliferation safeguards on their own. They also noted that restraining exports of sensitive technologies for uranium enrichment and nuclear waste reprocessing would "discriminate against the less industrialized nations" by creating an international double-standard.[120] To be sure, this was quite a self-serving stance, as these technologies were the object of potentially lucrative contracts with South Africa, Pakistan, and South Korea.[121] Nonetheless, these longstanding French positions—inherited from the Gaullist years, and popular with the *Commissariat à l'Energie Atomique*—were not shared by Valéry Giscard d'Estaing, the Fifth Republic's first non-Gaullist president. Giscard favored stronger relations with the United States, which was reflected in his growing commitment to non-proliferation—but this caused frictions with his Gaullist Prime Minister Jacques Chirac, who became an equally strong advocate of nuclear exports.[122]

After his trip to Baghdad, Chirac kept pushing for a bilateral partnership with the Iraqi Atomic Energy Commission.[123] Despite the high level of secrecy about the content of these

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[120] Embassy in Paris to State Department, "French Views on Coordination of Nuclear Export Policy," Telegram 28641, November 29, 1974, 1974PARIS28641, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration, https://aad.archives.gov/aad/createpdf?rid=260684&dt=2474&dl=1345. Again, this was a self-serving stance, as France was also negotiating lucrative contracts for uranium enrichment facilities in South Africa, for nuclear reprocessing plants in Pakistan and South Korea.

[121] Soutou, "La France et la non-prolifération nucléaire," pp. 6-7.

[122] Sarkar, "U.S. Policy to Curb West European Nuclear Exports, 1974–1978," pp. 122-124.

[123] "Problème de la Fourniture à l'Irak d'une Centrale Uranium Naturel-Graphite-Gaz (UNGG) et d'Installations Annexes: Aspects Liés à la Non Prolifération," February 27, 1975, ANF 19830368/2 - Minutier délégué général à l'énergie 1975 janvier-fevrier, Archives Nationales de France, Pierrefitte-sur-Seine, France; "Note pour Monsieur le

negotiations, word quickly got out about Iraq's interest in a non-conventional nuclear reactor—a decommissioned *Uranium Naturel Graphite Gaz* (UNGG) model[124] that ran on natural uranium and was better suited for the production of weapons-grade plutonium than for large amounts of electricity—alerting U.S. officials about Iraq's potentially dangerous intentions.[125] These bizarre Iraqi requests even raised alarms within the French government: Jean Blancard himself warned against pursuing nuclear exports to Iraq, which, in his own words, could be "a limited step, but still a step, towards a nuclear weapon."[126] But Chirac remained unphased by this domestic and international pressure: after all, this was another occasion for France to recycle Gulf petrodollars and protect its overseas oil interests, with the added bonus of gaining geopolitical leverage over a historically anti-Western Arab regime and earning a geostrategic foothold in the Persian Gulf.[127]

In September 1975, Iraqi Vice-President Saddam Hussein received red carpet treatment in Paris to sign the nuclear cooperation agreement—despite being vocal about his aggressive intentions. On his way to France, Hussein reportedly told journalists in Beirut that he was

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Ministre," February 26, 1975, ANF 19830368/2 - Minutier délégué général à l'énergie 1975 janvier-fevrier, Archives Nationales de France, Pierrefitte-sur-Seine, France.

[124] *Uranium Naturel Graphite Gaz* (UNGG) reactor technologies were developed in France in the 1950s, using graphite gas instead of water in their cooling system, and natural uranium as fuel, while allowing for a simpler extraction of weapons-grade plutonium. In fact, these reactors were used for France's own initial development of atomic weapons. They did not use enriched uranium, which granted them lower operational costs; however, they had a limited electricity production capacity and other technical disadvantages.

[125] Embassy in Paris to State Department, "Iraqi Interest in Buying French Natural Uranium Power Reactor," Telegram 01944, January 23, 1975, 1975PARIS01944, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration.

[126] "Problème de la Fourniture à l'Irak d'une Centrale Uranium Naturel-Graphite-Gaz (UNGG) et d'Installations Annexes: Aspects Liés à la Non Prolifération"; "Note pour Monsieur le Ministre."

[127] "Compte-Rendu de la Réunion du 15 Septembre 1975," October 3, 1975, ANF 19830368/2 - Minutier délégué général à l'énergie 1975 mars-decembre, Archives Nationales de France, Pierrefitte-sur-Seine, France; Embassy in Paris to State Department, "Saddam Hussein Visit to France," Telegram 23731, September 15, 1975, 1975PARIS23731, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration.

launching "the first Arab attempt at nuclear arming,"[128] which he claimed was a necessity given Israel's covert nuclear arsenal.[129] But again, nothing deterred Chirac: while France would eventually cave under U.S. pressure and stop its controversial sales of nuclear reprocessing plants to South Korea and Pakistan,[130] Iraq stood out as France's second largest oil supplier amidst the Energy Crisis and would be duly accommodated.[131] Hussein thus spent a whole weekend "in the bosom of PM Chirac's family" before meeting President Giscard. The end-result was an uneasy compromise between nonproliferation pressures and the Gaullist tradition: French officials reiterated the peaceful nature of this deal, insisting that Iraq was a signatory of the NPT, that the program would have strong safeguards, and that any agreement would have to be approved by the Euratom agency in Brussels. French technicians would be present in the reactor at all times, ensuring that no radioactive materials were diverted to other ends. Moreover, they had successfully dissuaded Hussein from seeking a UNGG reactor, settling instead for more conventional Light-Water technology.[132] But the result remained marred by controversy: this Osiris research

[128] William E. Burrows, *Critical Mass: The Dangerous Race for Superweapons in a Fragmenting World* (New York: Simon and Schuster, 1994), p. 37.

[129] The actual nature of the Iraqi nuclear program during the 1970s and early 1980s has been hotly debated. While insiders of the Ba'athist regime have claimed that the decision to build nuclear weapons had been made since the early 1970s, academic historian Målfrid Braut-Hegghammer has argued that Hussein was just "drifting" towards the bomb during the 1970s, and only began actively pursuing nuclear weapons with a dedicated budget and program after Israel's bombing of the Osirak reactor in 1981. See Ahmed Hashim, "Iraq: Profile of a Nuclear Addict," *The Brown Journal of World Affairs* 4, no. 1 (1997): 103–26; Khiḍr 'Abd al-'Abbās Ḥamzah and Jeff Stein, *Saddam's Bombmaker: The Terrifying inside Story of the Iraqi Nuclear and Biological Weapons Agenda* (New York: Scribner, 2000); Hal Brands and David Palkki, "Saddam, Israel, and the Bomb: Nuclear Alarmism Justified?," *International Security* 36, no. 1 (2011): 133–66, https://doi.org/10.1162/ISEC_a_00047; Målfrid Braut-Hegghammer, "Revisiting Osirak: Preventive Attacks and Nuclear Proliferation Risks," *International Security* 36, no. 1 (2011): 101–32, https://doi.org/10.1162/ISEC_a_00046; Målfrid Braut-Hegghammer, *Unclear Physics: Why Iraq and Libya Failed to Build Nuclear Weapons*, Cornell Studies in Security Affairs (Ithaca, New York ; London, [England]: Cornell University Press, 2016).

[130] William Burr, "Kissinger State Department Insisted That South Koreans Break Contract with French for Reprocessing Plant," The Nuclear Vault, National Security Archive, April 10, 2019, https://nsarchive.gwu.edu/briefing-book/henry-kissinger-nuclear-vault/2019-04-09/kissinger-state-department-insisted-south-koreans-break-contract-french-reprocessing-plant.

[131] Ahmed Hashim, "Iraq," p. 107.

[132] Embassy in Paris to State Department, "Saddam Hussein Visit to France," September 15, 1975.

reactor,[133] known as Osirak in France and Tammuz 1 in Iraq, would run on weapons-grade enriched uranium and could produce weapons-grade plutonium. The Israeli government never stopped perceiving it as a cover for a clandestine nuclear weapons program. Wary of the limitations of the NPT in ensuring nonproliferation in Iraq, and the vast risks this could pose to its own security, Israel took matters in its own hands by destroying the Osirak reactor in 1981.[134]

Conclusion:

To this day, the intentions behind the Iranian and Iraqi nuclear programs remain points of international contention, and these concerns go back to their origins in 1974—at the height of the Energy Crisis. Policymakers were aware of both Mohammad Reza Shah's and Saddam Hussein's ambiguous intentions even before these nuclear agreements were signed. And yet, during the two-year window following the onset of the First Oil Shock, the West's need to recycle Gulf petrodollars through bilateral trade agreements outweighed conflicting geopolitical and nonproliferation imperatives. By arousing self-interested nationalisms, the Energy Crisis exacerbated fractures across the European Community and the Atlantic Alliance—preventing multilateral cooperative solutions and opening further cracks in the global non-proliferation regime.

Moreover, the energy-derived economic and monetary logic that motivated these deals led to a geopolitical conundrum whose repercussions would pervade the West's relations with the Persian Gulf for decades to come—showcasing the law of unintended consequences. For instance,

[133] Research reactors are generally used for a variety of scientific purposes, including the production of radioactive isotopes used for cancer treatment. In contrast to nuclear reactors for power generation, research reactors can be turned on and off without affecting the electricity grid. This is significant in terms of nuclear proliferation: given that Light Water Reactors must be turned off in order to extract residual weapons-grade plutonium, research reactors are better suited than power reactors for diversion towards military purposes.

[134] With growing concerns that it was being used to develop nuclear weapons, the *Osirak* reactor would eventually be bombed by Israel in Operation Opera in 1981. See Joshua Kirschenbaum, "Operation Opera: An Ambiguous Success," *Journal of Strategic Security* 3, no. 4 (2010): 49–62, https://doi.org/10.5038/1944-0472.3.4.3.

Iran's nuclear program would be characterized by the Shah's nationalist resentment and resistance against any exceptional international controls, which were seen as a humiliating infringement upon Iran's national sovereignty. This stance would bear remarkable continuity despite the revolutionary upheavals of 1979: the Islamic Republic of Iran, like the Shah's regime, would claim its right—as a signatory of the NPT—to master the entire nuclear cycle.[135] After the Islamic Revolution, France tried to undo the damage: it stopped the construction of the Darkhovin reactor, refused to pay back its one-billion-dollar loan, froze enriched uranium supplies to Iran, and diverted its contracted machineries towards French power stations.[136] And yet, the Islamic Republic of Iran held onto its 10% share in EURODIF, and it has not abandoned its intention to build the Darkhovin reactor all by itself. The West German-built Bushehr reactor still stands—embroiled in the ongoing disputes over the 2015 Iranian nuclear deal.[137]

Meanwhile, international suspicions over Saddam Hussein's clandestine quest for atomic weapons plagued Iraq's relationship with the West until the turn of the 21st century: instead of dissuading Iraq, the Osirak reactor's destruction by Israeli warplanes in Operation Opera in 1981 may have actually encouraged Saddam Hussein to actively pursue a clandestine nuclear weapons program throughout the 1980s.[138] The U.N. would eventually dismantle the Iraqi nuclear program after the Gulf War in 1991—when the country verged on atomic weapon capabilities—but

[135] Hamblin, "The Nuclearization of Iran in the Seventies."

[136] Hamblin.

[137] Reuters Staff, "Iran Starts Second Atomic Power Plant: Report," *Reuters*, February 8, 2008, https://www.reuters.com/article/us-iran-nuclear-plant-idUSL0812863720080208; The Associated Press, "In A First, Iran's Sole Nuclear Power Plant Undergoes Emergency Shutdown," *NPR*, June 21, 2021, sec. Middle East, https://www.npr.org/2021/06/21/1008657573/in-a-first-irans-sole-nuclear-power-plant-undergoes-emergency-shutdown.

[138] Dan Reiter, "Preventive Attacks Against Nuclear Programs and the 'Success' at Osiraq," *The Nonproliferation Review* 12, no. 2 (2005): 355–71, https://doi.org/10.1080/10736700500379008; Målfrid Braut-Hegghammer, "Revisiting Osirak"; Hal Brands and David Palkki, "Saddam, Israel, and the Bomb"; Braut-Hegghammer, *Unclear Physics*.

lingering suspicions about Hussein's continued desire to develop weapons of mass destruction would serve as a justification for George W. Bush's war on Iraq in 2003.

Finally, Saudi Arabia may not have acquired a nuclear program, but it certainly succeeded in building a far-reaching partnership with the United States. This U.S.-Saudi rapprochement would reach new levels with King Faisal's momentous decision to recycle petrodollars bilaterally through the U.S. Treasury in 1975, creating unprecedented levels of financial and geostrategic interdependence between both countries.[139] In all these respects, the Energy Crisis set in motion major transformations in world order, with ripples that would carry on for decades to come.

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[139] Ahmed Banafe and Rory Macleod, *The Saudi Arabian Monetary Agency, 1952-2016: Central Bank of Oil*, Financial Institutions, Reforms, and Policies in Muslim Countries (Cham: Palgrave Macmillan US, Springer International Publishing, 2017), pp. 49-76; David E Spiro, *The Hidden Hand of American Hegemony: Petrodollar Recycling and International Markets* (Cornell University Press, 2019), pp. 42-48.

Chapter V:
Oil Sheikhs in Wall Street:
Petrodollar Recycling, the Restructuring of Global Finance, and the Limits of South-South Solidarity, 1974-1978

With America's decisive victory over France in the global oil scramble, the time arrived for the U.S. to heal the divisions that plagued relations among Western countries, and the bitter antagonism that pitted industrialized countries against the Global South. After Arab countries lifted their oil embargo in March 1974, the opportunity arose for the United States to establish a new relationship with Saudi Arabia, which in turn served as a basis for restoring cooperation with Europe and Japan. With the rise of new discourses on global interdependence and the interconnectedness of the international economy, Kissinger sought to build collaborative frameworks that would help America and its allies move past the Energy Crisis. These efforts, however, would be quite differentiated and multilayered. For the industrialized West, Kissinger would take the path of multilateralism, creating new international institutions within the OECD as well as exclusive summits like the G6 to solidify a united bloc under U.S. leadership. In contrast, the preferred path for articulating relations with OPEC would be that of bilateralism—with the creation of a highly consequential and mutually beneficial special relationship with the Saudi monarchy. As for the Global South, which had become inflamed with radical demands for the global redistribution of wealth, the Nixon and Ford administrations' answer was that of market liberalization. Blaming the Oil Shock on OPEC's manipulation of supply and prices, U.S. Republicans, intellectuals, and businessmen conversely saw the free market as the panacea for the world's economic woes—which would bring the Third World's economic revolution to a close.

But these efforts at ordering the world had to take OPEC countries' new and unprecedented oil wealth into account. The price hike had filled oil exporting states' coffers with billions of oil-derived revenues—known as petrodollars—which in turn could be translated into economic or political power. Hence, OPEC's massive petrodollar reserves filled the rest of the world with ambivalence: Western countries, for instance, wanted these petrofunds to flow back into their economies, but they dreaded being held as OPEC's financial hostages. In contrast, the Third World expected petrodollars to serve as an instrument of South-South solidarity, used as aid to alleviate the deep economic strain posed by the oil price hike for some of the world's most vulnerable economies. Thus, the fate of petrodollars became a deeply contentious issue, and different countries, financial institutions, and international organizations advocated for competing "recycling" mechanisms in which OPEC's funds could be borrowed to cover oil-importing countries' deficits. These heated debates highlighted the conflicting interests of industrialized countries, OPEC, and the Third World on questions of national self-interest versus international solidarity, the quest for financial profits versus the pursuit of economic justice, and the need for government regulation versus the advantages of market liberalization.

In the end, national self-interest and geopolitical power trumped any other considerations, as the United States proceeded to build a secret bilateral arrangement with Saudi Arabia to recycle the world's largest petrodollar reserves through the U.S. Treasury and Federal Reserve. This was a remarkable feat, that still eludes historiographical attention.[1] The U.S.-Saudi relationship moved

[1] Despite arousing some intellectual interest during the 1980s and 90s, this financial dimension of the U.S.-Saudi relationship still eludes historical inquiry. Steven Emerson wrote a journalistic—and rather sensationalist—account of the Saudi monarchy's hidden economic influence in the United States in *The American House of Saud: The Secret Petrodollar Connection* (1985), but his account is not archivally driven and focuses instead on exposing the allegedly corrupting influence of Saudi petrodollars on U.S. political and economic life. In *The Hidden Hand of American Hegemony: Petrodollar Recycling and International Markets* (1999), political scientist David Spiro had written an authoritative work that quantifies and theorizes on the impact of petrodollar recycling on international financial markets—but without the access to archival materials that would explain the making of the U.S.-Saudi special relationship. The past five years have seen a renewed interest in petrodollar recycling among historians, but these have focused on other multilateral frameworks rather than the U.S.-Saudi bilateral solution. William Glenn Gray's article "Learning to 'Recycle': Petrodollars in the West," in the edited volume *Oil Shock: The 1973 Crisis and its Economic Legacy* (2016), explores the different options pondered by U.S. and West German officials—and particularly Helmut Schmidt—for petrodollar recycling, from the IMF Oil Facility to potential European and OECD frameworks. Given his focus on Germany, however, he ignores the U.S.-Saudi option that eclipsed the rest. In *Oil*

far beyond the obvious dimension of oil trade, with the Saudi monarchy working to fuel the rise of Wall Street and the financialization of the U.S. economy, all while protecting the role of the U.S. dollar in the international monetary system and helping redress America's trade balances. This special relationship, which ironically emerged from Saudi Arabia's use of economic warfare against the United States, would thus become a key instrument and enabler of American power in a globalizing world. But this meant that other more equitable frameworks for petrodollar recycling were restricted and pushed aside. To be sure, OPEC states did make significant efforts to support the Global South—with the proliferation of new OPEC-led development agencies and financial institutions that sought to build new forms of Islamic and Afro-Arab solidarity. But these efforts were not sufficient to stem the developing world's slide into ever deepening deficits—pushing Latin America into spiraling levels of debt towards international private banks. Thus, despite the Global South's high hopes for OPEC's economic revolution, the Energy Crisis eventually strengthened the United States' role as the uncontested leader of the capitalist world while pushing several developing economies to the brink of collapse.

Revolution (2017), Chris Dietrich has analyzed in great depth the making of the IMF Oil Facility as a limited tool of South-South cooperation—but again, the relative failure of petrodollar recycling through the IMF must be analyzed in conjunction with the success of the Saudi-U.S. Treasury framework. In "Oil, dollars, and US power in the 1970s: re-viewing the connections" (2020), Duccio Basosi has begun to look for the ways in which U.S.-Saudi diplomacy shaped the Saudi monarchy's recycling efforts—but without reaching firm conclusions. Meanwhile, David Wight's recent book *Oil Money* (2021) focuses on the use of petrodollars to further the strength of U.S. empire, but the breadth of his work precludes a more thorough investigation of this precise turning point in U.S.-Saudi relations.

Steven Emerson, *The American House of Saud: The Secret Petrodollar Connection* (New York: FWatts, 1985); David E Spiro, *The Hidden Hand of American Hegemony: Petrodollar Recycling and International Markets* (Cornell University Press, 1999); William Glenn Gray, "Learning to 'Recycle': Petrodollars in the West," in *Oil Shock: The 1973 Crisis and Its Economic Legacy*, ed. Elisabetta Bini, Giuliano Garavini, and Federico Romero, International Library of Twentieth Century History 88 (London ; New York, NY: IBTauris & CoLtd, 2016), 172–97; Christopher R. W. Dietrich, *Oil Revolution: Anticolonial Elites, Sovereign Rights, and the Economic Culture of Decolonization*, Global and International History (Cambridge, United Kingdom ; New York, NY, USA: Cambridge University Press, 2017); Duccio Basosi, "Oil, Dollars, and US Power in the 1970s: Re-Viewing the Connections," *Journal of Energy History/Revue d'Histoire de l'Énergie*, no. 3 (June 2, 2020); David M. Wight, *Oil Money: Middle East Petrodollars and the Transformation of US Empire, 1967-1988*, United States in the World (Ithaca [New York: Cornell University Press, 2021).

I. Cooperation Restored: The New U.S.-Saudi Special Relationship and the Return of Western Unity

Despite the relief provided by the end of the Arab oil embargo, OPEC remained sternly opposed to any reduction in oil prices—which continued destabilizing the global economy and the international monetary system. In this context, Henry Kissinger moved to resolve the Energy Crisis by restoring international cooperation both within the industrialized West, and between the United States and Saudi Arabia. This would be, however, far from a return to business as usual: U.S.-Saudi relations would be rebuilt upon new foundations, with an institutional marriage with the Saudi monarchy that would make both countries so mutually dependent as to make another embargo unthinkable. Meanwhile, the United States would lead the way in countering OPEC's economic revolution. Against growing calls for a New International Economic Order—demanding a radical redistribution of wealth between the global North and South—the Nixon and Ford administrations asserted the primacy of the free market, which they claimed had to be liberated from OPEC's manipulation. This required tighter coordination among the world's largest capitalist economies, which united as a bloc in new multilateral institutions such as the International Energy Agency.

The Nixon and Ford administrations' efforts to resolve the Energy Crisis were inscribed within the ideological battles pitting New Deal Democrats against free-market Republicans. In February 1974, the Democratic-dominated Congress had passed an Energy Bill that sought to mitigate the oil shock through price controls. For Keynesian-inspired New Deal Democrats, the solution to the Energy Crisis thus rested upon increasing regulation and state intervention in the economy. Congressional Republicans, however, feared that Nixon would cave into these liberal demands—especially in the context of the Watergate investigations and speculation about potential impeachment proceedings. They formed the Republican Study Committee to formulate conservative policy counterproposals inspired by the thought of figures such as Friedrich Hayek and Ludwig von Mises, seeing the Energy Crisis as a testing ground for *laissez-faire* free-market solutions to America's—and the world's—socio-economic problems.[2] This came hand in hand with the ascendance of intellectuals such as Milton Friedman in the Chicago School of Economics, as well as conservative think tanks such as the American Enterprise Institute and the Heritage Foundation, all of which claimed that the price signal was the best means to allocate resources in the economy.[3] In the context of the Energy Crisis, high oil prices would stimulate an increase in domestic fuel production and curb consumption—and this rise in supply and fall in demand would eventually push prices back down. However, this long-term equilibrium could not be met if the government meddled with prices, so policymakers just had to let the market do its job.[4]

The Energy Crisis thus produced an effervescence of free-market oriented ideological activism by intellectuals, businessmen, and politicians. For instance, Friedman penned a series of articles in *Newsweek* opposing price controls and rationing as failed economic experiments, going as far as to call for the abolition of the Federal Energy Organization—the precursor to the Department of Energy established within the framework of Project Independence.[5] In a dramatic reference to Hayek, Friedman also denounced the American government's reflex of responding to the Energy Crisis by expanding the purview of the state: "It is a mark of how far we have gone on

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[2] Jacobs, *Panic at the Pump,* pp. 102-107.

[3] For an overview of the ascendancy of neoclassical economics during the 1970s and 1980s, and the roles of academics, think tanks and transnational organizations such as the Mont Pelerin Society in the global spread of the so-called neoliberal movement, see Quinn Slobodian, *Globalists: The End of Empire and the Birth of Neoliberalism* (Cambridge, MA: Harvard University Press, 2018).

[4] Jacobs, *Panic at the Pump*, 102–7.

[5] Milton Friedman, "FEO and the Gas Lines: Consider West Germany," *Newsweek*, March 4, 1974; Milton Friedman, "A Dramatic Experiment: Failure at Home," *Newsweek*, April 1, 1974.

the road to serfdom that governmental allocation and rationing of oil is the automatic response to the oil crisis."[6] Meanwhile, U.S. banking mogul and Citicorp Chairman Walter B. Wriston also castigated government over-regulation's chokehold over American free enterprise. Speaking to the Economic Club of Detroit in February 1974, he made an impassioned case for *laissez-faire* economics as a cornerstone of both American capitalism and democracy, and as the path out of the oil shock:

> Shortages […] can often be eliminated when prices are allowed to exercise their age old functions – motivate the consumer to consume less and the producer to produce more and spur on someone to develop a new product that is better and cheaper. Shortages become a crisis when government intervenes to frustrate the ability of the free market to function. A free market is not chaos, but a continuous economic referendum […]. Government intervention destroys that path to a democratic decision.[7]

In this context, the energy crisis stood as a "fork on the road": a mistaken path would lead government bureaucracy to institutionalize market dislocations and create permanent shortages; the righteous path, however, would grant innovation, enterprise, and the free market a leading role in allocating economic resources "for the good of all."[8]

Hence, shortly after his indictment by a Grand Jury on the Watergate scandal, Nixon successfully vetoed the Energy Bill on March 6th, 1974—pushing back against economically interventionist solutions to the oil crisis. But he still needed to address public demands for a price roll-back. After all, with the daily hurdles of oil shortages, high inflation, gas rationing, and long lines at the pump, the U.S. public had become exasperated by the energy sector as a whole—whether it be OPEC, Arab sheikhs, oil supermajors, or Project Independence. American consumers

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[6] Milton Friedman, "Why Some Prices Should Rise: Voluntary Cooperation," *Newsweek*, November 19, 1973.

[7] Walter Wriston, "The Whale Oil, Chicken, and Energy Syndrome" (Transcript of Speech, Speech to the Economic Club of Detroit, Detroit, February 25, 1974), Walter B. Wriston Papers, Tufts Digital Library, http://hdl.handle.net/10427/35117.

[8] Wriston.

resented being told to lower their thermostats, which they perceived as another government intrusion into their private lives and coincided with the scandal of forced school desegregation through mandatory busing—an event that divided the nation and angered White, working-class, traditional New Deal Democrats. Violent incidents such as shootings and bomb explosions in the February 1974 trucker strikes had also shocked the electorate. But, with Republicans' ideological rejection of price controls, domestic oil prices would naturally rise. Some *laissez-faire* measures promised to curb this in the long run—for instance, the removal of environmental and regulatory red tape would eventually boost U.S. domestic oil production. But an effective oil price liberalization could not be exclusively carried out at home: global oil had to be freed from OPEC's alleged market manipulation and artificially high prices.[9] Thus, the most appealing short-term solution that would satisfy Republican voters and congressmen would be for Saudi Arabia to increase output and "liberate" the global oil market from OPEC's grip.

Indeed, as the world's largest oil exporter, and with the lowest marginal costs of production, Saudi Arabia would find it easiest to increase production and push oil prices down—all through classical market mechanisms. With the lifting of the embargo in March 1974, the pace of U.S.-Saudi diplomatic exchanges picked up, and Kissinger sought to build a new and exclusive relationship with the Saudi monarchy. After America's entry into the bilateral oil scramble, and its choice of Saudi Arabia as its key preferential oil partner, the United States and Saudi Arabia made a joint announcement on April 5th, 1974, about their plans for expanded cooperation in a broad range of fields. By the end of the month, they agreed to establish two joint governmental commissions: one for economic cooperation, and the second for security cooperation. The joint economic commission would cover a broad range of issues from industrialization and development

[9] Jacobs, *Panic at the Pump*, 107–13.

to energy, trade, finance, and investment, in addition to technology and scientific research. It would be headed by none other than William Simon, U.S. Secretary of the Treasury, and Prince Fahd, Saudi Minister of the Interior and the country's future monarch. Meanwhile, the security commission would formulate integrated U.S.-Saudi foreign policies, assess common threats to Middle Eastern stability, and supply Saudi Arabia with U.S. military equipment and training. These commissions embodied both aspects of the U.S.-Saudi relationship that had gained increasing relevance since 1972: The American and Saudi economies would not only become economically interdependent through oil trade, but, through a mechanism that remained to be determined, it was hoped that Saudi Arabia would reinvest at least part of its oil revenues in the U.S. economy—fulfilling Saudi Oil Minister Ahmed Zaki Yamani's secret promise of 1972. Furthermore, given that Saudi Arabia had historically been perceived as a relatively insecure source of oil—with two pro-Nasser military coup plots against the monarchy foiled in 1962 and 1969—the desert kingdom would need to be *made safe* with a full American commitment to the preservation of the Saudi monarchy.[10]

And yet, for Saudi Arabia, this posed some thorny dilemmas: it certainly sought a closer relationship with the United States, but it also had to preserve its leadership position in OPEC and maintain the cartel's strength and coherence. The kingdom also needed to devise a formula that optimized revenues for its state coffers: either through high oil production volumes at lower prices, or with a lower output at high prices—and OPEC favored the latter.[11] This was a very sensitive issue for both OPEC and the Arab world. In fact, the so-called "radical" Arab camp carried sway

[10] Department of State to Embassy in Jeddah, "U.S.-Saudi Cooperation," Telegram 045027, April 26, 1974, 1974STATE085347, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration.

[11] "Memorandum from the President's Deputy Assistant for International Economic Affairs (Cooper) and Harold H. Saunders of the National Security Council Staff to Secretary of State Kissinger," June 5, 1974, *FRUS*, Vol. XXXVI, Doc. 353, https://history.state.gov/historicaldocuments/frus1969-76v36/d353.

across the developing world and could accuse Saudi Arabia of selling out to American capitalism, imperialism, and Zionism. For instance, Libya's revolutionary leader Muammar Qaddafi had already clashed with the conservative Arab Gulf monarchs due to his uncompromising opposition to lifting the embargo against the United States—and he went on to symbolically continue the embargo unilaterally.[12] Meanwhile, Algerian President Houari Boumedienne had grown in stature as a leader of the Global South. He became the *de facto* leader of the Group of 77—the bloc of developing countries in the United Nations—and called for the sixth special session of the U.N. General Assembly to discuss the prices of raw materials and the Third World's economic development in April 1974. There, he castigated "imperialist powers" for controlling global raw material markets and creating an unfair international division of labor that sustained growing inequality. In response, he called for OPEC's model to be generalized to the rest of the Third World through a "union of the raw material producing countries" in which poor countries would nationalize their natural resources and fix global commodity prices—all to the great acclaim of a multitude of African, Asian and Latin American countries.[13] The United Nations thus adopted the Declaration on the Establishment of a New International Economic Order (NIEO) on May 1st, 1974, calling for a radical redistribution of wealth between North and South through more equitable terms of trade, and for Third World countries to seize control over their commodities

[12] Jim Hoagland, "Militant Arabs Try to Keep Oil Cutoff: 2 Clashes by Syrian, Israeli Forces Boost Tension Amid New Buildup Militant Arabs Fight to Keep U.S. Oil Squeeze," *Los Angeles Times (1923-1995)*, March 9, 1974, sec. PART ONE; William J. Coughlin, "Decision to Lift Oil Embargo Preserves Fragile Arab Unity: ARAB OIL DECISION," *Los Angeles Times (1923-1995)*, March 17, 1974, sec. PART ONE.

[13] M. V. KAMATH The Times of India News Service, "Boumedienne Flays Rich Nations," *The Times of India (1861-2010)*, April 11, 1974; "Boumedienne Urges Poor Nations to Nationalise," *The Irish Times (1921-)*, April 11, 1974.

and their prices—an ambitious and revolutionary anti-imperialist economic project that stood diametrically opposed to the Nixon administration's plans.[14]

But if such antagonism by revolutionary Arab regimes was predictable, the same could not be said about the attitude of traditional U.S. energy partners such as Iran and Venezuela, both of which adamantly opposed lower oil prices. The Shah expressed repeated concerns about the eventual depletion of Iran's oil reserves—which he wanted to conserve for the future as he moved the Iranian economy away from oil towards a higher reliance on electricity and nuclear power. The spike in oil prices would clearly help finance his Iran's accelerated modernization and industrialization, but the Shah also coated his country's national interest under the more universal language of serving the "nobler purposes of mankind": for instance, he boasted that the price hike would foster more responsible energy consumption by the West and stimulate research and development in alternative energies—which would certainly benefit the planet. He also challenged the analyses of U.S. economists and policymakers who claimed that the oil shock would hurt Iran's long-term interests: he rejected the idea that high oil prices in the 1970s would lead to lower prices in the 1980s, and that the destabilization of industrialized economies would reinforce the Soviet threat by leading to electoral victories for Socialist political parties in the West.[15] Hence, Treasury Secretary Simon described the Shah as "the ringleader on oil—with Venezuela. Otherwise prices would be down."[16] Kissinger also repeatedly expressed his frustration at the Shah, his closest

[14] UN General Assembly (6th special Sess.: 1974), "Declaration on the Establishment of a New International Economic Order.," 1974, https://digitallibrary.un.org/record/218450. For broader overviews of the history of the New International Economic Order, see Dietrich, *Oil Revolution*, pp. 264-316; Michael Hudson, *Global Fracture: The New International Economic Order*, New ed. (London ; Ann Arbor, MI: Pluto, 2005).

[15] "Memorandum From James H. Critchfield, Special Assistant to the Deputy Director of Operations, Central Intelligence Agency, to the Ambassador to Iran (Helms)," June 9, 1974, *FRUS*, Vol. XXXVI (Government Printing Office, Doc. 354).

[16] "Memorandum of Conversation," July 9, 1974, *FRUS*, Vol. XXXVI, Doc. 360, https://history.state.gov/historicaldocuments/frus1969-76v36/d360.

geopolitical ally in the region, who kept destabilizing the global economy by pressing for further oil production cuts and higher prices.[17] But this situation left Saudi Arabia in the uncomfortable position of having to challenge its OPEC peers—and potentially the whole logic behind the oil cartel—for the sake of the U.S. economy. Hence, the best that Yamani could do was to press for stability by preventing new price hikes, which he succeeded in doing in the OPEC summits in Vienna in March 1974 and in Quito in June.[18]

But these intra-OPEC rivalries were not the only stumbling blocks that needed to be overcome for Saudi Arabia to establish a new strategic partnership with the United States. Saudi revenues from oil sales were rising exorbitantly, and the Saudi Arabian Monetary Agency (SAMA)—the kingdom's central bank—was struggling to manage these unprecedented amounts of petrodollars, which it kept rolling over as short-term deposits in foreign bank accounts. Until an adequate financial arrangement for reinvesting its billions of petrodollars was found, Saudi Arabia's interest actually lay in cutting back on production as to curb the growth of its dollar reserves.[19] There were also qualms among Saudi royals about the long-term prospects for a preferential relationship with the United States: the Nixon administration seemed bent on the success of Project Independence, so Saudi Arabia risked eventually finding itself without an American outlet for its oil exports. Instead, the monarchy needed assurances for a long-term partnership that would secure its market access well into the 1980s and 1990s—so the United

[17] "Memorandum of Conversation," August 3, 1974, *FRUS*, Vol. XXXVI, Doc. 362, https://history.state.gov/historicaldocuments/frus1969-76v36/d362.

[18] "Memorandum from the President's Deputy Assistant for International Economic Affairs (Cooper) and Harold H. Saunders of the National Security Council Staff to Secretary of State Kissinger."

[19] Ahmed Banafe and Rory Macleod, *The Saudi Arabian Monetary Agency, 1952-2016: Central Bank of Oil*, Financial Institutions, Reforms, and Policies in Muslim Countries (Cham: Palgrave Macmillan US, Springer International Publishing, 2017), 49–60.

States had to make a commitment to continuing to import Saudi oil.[20] But despite these unsolved questions, the U.S. continued moving forward in building a "durable special relationship with the Saudis embracing all areas of mutual concern—political, security, and economic."[21]

The most salient points of the new U.S.-Saudi "special relationship" were also the most discrete and controversial. King Faisal was especially curious about the American proposals on finance and investment but demanded that no emphasis be placed on this issue, so that "the world would not conclude that the only purpose of [the U.S.] proposal was to get [their] hands on the Saudi billions." Even if U.S. officials were anxious to know what Saudi Arabia would do with its surplus funds, the specific financial proposals had to "be buried in broader statements on economic development." Faisal was equally apprehensive about U.S. attempts to solve its balance of payments problems by "selling vast amounts of useless military equipment to Saudi Arabia."[22] Negotiations thus proceeded in secrecy as expectations built up, with Prince Fahd traveling to Washington to sign a joint statement on June 8th, 1974. In characteristic fashion, the three-page statement made no mention of the joint defense commission and just vaguely mentioned the prospects for U.S.-Saudi financial cooperation: "The United States Treasury Department and the Saudi Arabian Ministry of Finance and National Economy will consider cooperation in the field of finance."[23] A week after Prince Fahd's visit to Washington, it was Nixon's turn to travel to Saudi Arabia, on June 14th and 15th, sealing the renewal of these increasingly special ties.

[20] "Memorandum of Conversation," Doc. 360.

[21] "Memorandum from the President's Deputy Assistant for International Economic Affairs (Cooper) and Harold H. Saunders of the National Security Council Staff to Secretary of State Kissinger."

[22] Embassy in Jeddah to State Department, "Saudi Views on New Saudi-American Relationship," Telegram 02421, May 5, 1974, 1974JIDDA02421, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration.

[23] Department of State to Embassy in Amman, Telegram 121829, June 21, 1974, 1974STATE121829, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives.

And in this turning point in U.S.-Saudi relations, Project Independence began faltering. As an inchoate mix of policies that combined new government controls with the removal of regulatory red tape, Project Independence found detractors across the entire political spectrum. And, given the endless challenges posed by a U.S. move towards energy autarky—forcefully altering consumer habits for the sake energy conservation, scrambling to find alternative energy sources, expanding oil production in fragile ecosystems from deep offshore seas to the Arctic—the White House began voicing arguments against this energy transition, opting instead for the easier path of relying on cheap oil imports from Saudi Arabia. After all, there was a clear long-term coincidence in U.S. and Saudi economic interests: Saudi Arabia was producing oil at about 15-20% below capacity—which kept prices high—but its economy could function equally well if the kingdom raised its oil output to meet U.S. demand and pushed prices down. Officials in the White House and the National Security Council thus began arguing against Project Independence: "It's in no one's interest to let a worst-case world develop in the 1980's in which cheap Middle East oil stays in the ground losing value while expensive energy substitutes are being produced at high costs elsewhere in the world."[24] Moreover, if Saudi Arabia was torn between its role in OPEC—where it was politically pressured to cut production—and its desire for a deeper bilateral relationship with the United States, then Project Independence stood as a clear obstacle to a new U.S.-Saudi special relationship. Again, top Saudi officials were questioning what their relationship with the U.S. would mean in the long run if Americans still sought oil self-sufficiency.[25] Thus, instead of remaining a cornerstone of U.S. energy policy, Project Independence became a bargaining chip with Saudi Arabia: "The pace and substance of Project Independence [became], in this sense,

[24] "Memorandum from the President's Deputy Assistant for International Economic Affairs (Cooper) and Harold H. Saunders of the National Security Council Staff to Secretary of State Kissinger."

[25] "Memorandum of Conversation," Doc. 360.

negotiable."[26] U.S. officials thus set out to give unprecedented assurances to the Saudi monarchy, claiming that they wanted "an unusual and special relationship with them, […] not a cosmetic bilateral arrangement with occasional attention from our cabinet-level officials," and that they could "achieve the same sort of close and confidential relationship with them in financial matters that we have with Germany, the UK, Japan, and other leading industrial nations."[27]

This also meant that Project Independence could not be openly dismissed, as it stood as the last unilateral bargaining tool under U.S. control to pressure oil producers to reduce prices.[28] But the United States could not bear the entire burden of reducing global oil demand; it needed the cooperation of other major oil-importing countries—especially in Western Europe and Japan. In May 1974, U.S. officials met with their European and Japanese counterparts in an Energy Coordinating Group (ECG)—a network of oil-importing industrialized countries that arose after the Washington Energy Conference to design an Integrated Emergency Program (IEP). The IEP was tasked with ensuring that, in case of another crisis, the international debacle of the previous months would not happen again. Instead, the Western alliance would preempt any future oil embargo through mutually agreed emergency oil sharing mechanisms and coordinated energy-saving responses. The State Department understood that the United States was threading a delicate balance between building a new preferential bilateral partnership with Saudi Arabia and restoring multilateral cooperation with Europe and Japan against OPEC. Thus, as a gesture of goodwill, the U.S. government agreed that it would share its domestic oil reserves with its allies in the most extreme emergencies—promising to extend once again an "oil umbrella" over them, if need be,

[26] "Memorandum from the President's Deputy Assistant for International Economic Affairs (Cooper) and Harold H. Saunders of the National Security Council Staff to Secretary of State Kissinger."

[27] "Memorandum from the President's Deputy Assistant for International Economic Affairs (Cooper) and Harold H. Saunders of the National Security Council Staff to Secretary of State Kissinger."

[28] "Memorandum of Conversation," Doc. 362.

especially in case of a selective embargo. In turn, however, Europe and Japan would have to give up on their reticence to form an official bloc of oil-consuming countries for fear of antagonizing OPEC.[29] In Kissinger's own words, "If the producers have a cartel, why should not the consumers cooperate?"[30]

Predictably, French opposition to U.S.-led initiatives remained a major stumbling block to be overcome—especially after the public showdown between Henry Kissinger and Michel Jobert at the Washington Energy Conference, and the bitter U.S.-French competition for influence in the Persian Gulf that ensued during the first half of 1974. In this context, Giscard's rise to the French presidency provided a new opportunity for cooperation, allowing the United States, Europe, and Japan to negotiate in a more depoliticized context.[31] In bilateral talks with newly-installed French Foreign Minister Jean Sauvagnargues in July 1974, Kissinger made the case for France to abandon its long-held skepticism towards Western energy cooperation—which now manifested as a reticence to join the ECG and IEP. If anything, the experience since October 1973 had shown how the lack of concerted action had created a "panic" in which Western countries had acted like "a disorganized rabble," "as if they were rabbits paralyzed by the snake."[32] Kissinger invited France to seriously embrace Western cooperation, assuring the Foreign Minister that the United States did not in any way desire to dominate European energy policy, but to bring an end to a situation in which the West continued "to be ransomed by those weaker states who are promoting inflation in

[29] "Minutes of the Acting Secretary of State's Principals and Regional Staff Meeting," July 10, 1974, *FRUS*, Vol. XXXVI, Doc. 355, https://history.state.gov/historicaldocuments/frus1969-76v36/d355.

[30] "Memorandum of Conversation," July 4, 1974, *FRUS*, Vol. XXXVI, Doc. 359, https://history.state.gov/historicaldocuments/frus1969-76v36/d360.

[31] "Minutes of the Acting Secretary of State's Principals and Regional Staff Meeting."

[32] "Memorandum of Conversation," Doc. 359.

all our countries."[33] In this context, Kissinger added that there would be no contradiction between a U.S.-Saudi rapprochement and the creation of a bloc of oil-consuming countries. Instead, these initiatives could complement each other. Progress in U.S.-Saudi bilateral talks offered a mere glimpse of what could happen if oil-consuming countries held a real coordinated position vis-à-vis OPEC: "The reason we are going ahead with bilateral cooperative programs is to give the Arabs something they might risk losing if they interfere with oil supplies again. If all the consumers work together, this will be more effective." Hence, while remaining fearful of antagonizing Arab oil producers, Sauvagnargues understood that U.S. leverage over Saudi Arabia might hold the ultimate key to the problems plaguing the global economy—if only Kissinger could "handle the Saudis."[34]

New avenues for international cooperation thus began to materialize during the summer of 1974, with Europe and Japan becoming increasingly amenable to supporting the United States in international forums instead of competing with it for OPEC's oil. Kissinger formulated a two-pronged strategy for resolving the crisis: on the one hand, the U.S. would hold an uncontested leadership in bilateral relations with Saudi Arabia. The U.S.-Saudi joint commissions would be integral to the strategy: the U.S. would offer tangible assets to their Saudi counterparts that would increase U.S. leverage and help exert pressure for lower oil prices. On the other hand, the U.S. would continue organizing Europe and Japan through the ECG and IEP and by multiplying high-level meetings among finance and foreign ministers within the IMF and the OECD.[35] Additionally, Project Independence would be used as a bargaining chip with both Saudi Arabia and Europe. Internally, U.S. officials were extremely pessimistic that this program would ever succeed:

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[33] "Memorandum of Conversation."

[34] "Memorandum of Conversation."

[35] "Memorandum of Conversation," August 13, 1974, *FRUS*, Vol. XXXVII, Doc. 1, https://history.state.gov/historicaldocuments/frus1969-76v37/d1.

Kissinger acknowledged that “it will never work,” and Secretary Simon agreed that it was “in bad shape.”[36] However, there was no need for Saudi Arabia, Europe, or Japan to be made aware of these setbacks. On the contrary, Project Independence continued officially moving ahead, serving as a blueprint for Europe and Japan to emulate through coordinated actions within the IEP. Federal Reserve Chairman Arthur Burns thus summarized the potential benefits of this strategy: “My guess is that if we announce we are going ahead with Project Independence, conservation and the IEP, we will have a much stronger position with [Saudi Arabia].”[37]

Richard Nixon’s resignation in August 1974 did not in any way alter Kissinger’s strategic vision, which would be brought to fruition by President Gerald Ford. In September 1974, the Energy Coordinating Group reached an agreement on the broad strokes of an International Energy Program: meeting in Brussels, the world’s largest capitalist countries—including West Germany, the United Kingdom, Australia, Japan, and Canada—agreed to increase their oil reserves and to set automatic rules in case of a new oil emergency. Echoing the proposals that had been presented by Kissinger during the Washington Energy Conference in February 1974, they set up an Emergency Sharing System for oil in case of any supply shortfalls or interruptions and agreed upon common levels of demand restraint in case of an emergency. The ECG agreed to turn the IEP into an autonomous agency within the OECD, which would be established in November 1974 as the International Energy Agency (IEA), and whose membership would be exclusively open to OECD members. This would ensure long-term cooperation among the leading capitalist economies in research and development for energy conservation and the search for alternative

[36] “Memorandum of Conversation.”

[37] “Memorandum of Conversation.”

sources.[38] This stood in marked contrast to the fissures that had been exposed since October 1973, and formalized the West's return to multilateral cooperation as the key to resolving the Energy Crisis. Moreover, this internationalization of Project Independence—as Kissinger had called for during the Washington Energy Conference—allowed for the burden of curbing global oil demand to be more equitably shared among major industrialized countries, alleviating pressures on the Ford administration's domestic energy program.

Hence, with this restoration of Western cooperation, and the development of a new U.S.-Saudi special relationship, the United States shifted gears, taking a more aggressive stance in the world stage. On September 23, 1974, President Ford and Secretary Kissinger simultaneously issued damning condemnations of OPEC. Speaking at the United Nations General Assembly, Kissinger argued that high oil prices and the world's economic turmoil were "not the result of economic factors—of an actual shortage of capacity or of the free play of supply and demand," but they were caused by OPEC's "deliberate decisions to restrict production and maintain an artificial price level."[39] Meanwhile, in the annual World Energy Conference held in Detroit on September 23, 1974, President Ford changed his rhetoric on Project Independence, which, alone, would not suffice to solve the world's problems. Instead, he unveiled his new flagship program, "Project Interdependence," which sought to resolve the oil crisis not by moving the U.S. into energy autarky, but through multilateral cooperation among oil-consuming countries along with OPEC's collaboration in increasing oil production. He used some of the strongest language to date to condemn OPEC's market manipulation to produce "exorbitant prices," claiming that the

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[38] "Memorandum From the Chairman of the International Energy Review Group Working Group (Enders)," September 16, 1974, *FRUS*, Vol. XXXVII, Doc. 6, https://history.state.gov/historicaldocuments/frus1969-76v37/d6; For more details on the establishment of the International Energy Agency, see OECD and International Energy Agency, *IEA the First 30 Years: The History of the International Energy Agency 1974-2004*, vol. 4, The History of the International Energy Agency / Richard Scott (Paris: OECD/IEA, 2004).

[39] "Editorial Note," *FRUS*, Vol. XXXVII, Doc. 8, https://history.state.gov/historicaldocuments/frus1969-76v37/d8.

situation could "escalate to global catastrophe" and threatened "the breakdown of world order and safety."[40]

The 1974 World Energy Conference thus reasserted petroleum's primacy in a market-driven interdependent economy—to the detriment of environmental sustainability. For Secretary Simon, liberating the market entailed removing "environmental restraints upon the production and combustion of fossil fuels," which had "curtailed the domestic search for oil."[41] This was echoed by Former British energy adviser Lord Zuckerman, who used the venue to call for a rethinking on priorities away from "the aims of environmentalists interested in amenity and the conservation of nature." In his own words, "What harm man has done to his environment [was] trivial" compared to the prospects of a global economic meltdown.[42] There certainly were ecologically-friendly initiatives presented at the summit—for instance, Federal Energy Administrator John Sawhill announced that the U.S. was considering a billion-dollar program in solar energy research and development over five years.[43] But this did not prevent the Detroit World Energy Conference from drawing harsh criticisms from environmentalist organizations such as the Sierra Group, whose representative Mary Sinclair decried how "some of the energy specialists reporting seem to regard the environment as an antagonist instead of a major energy resource and ally in supporting the biosphere."[44] The summit thus revealed that "Project Interdependence" would be far from an

[40] JOHN PICTON Globe and Mail Reporter, "Ford Stresses Co-Operation on Energy Plan," *The Globe and Mail (1936-)*, September 24, 1974, sec. Report on Business; "Ford: 'Exorbitant Prices . . . Distort World Economy,'" *The Washington Post (1974-)*, September 24, 1974; "World Energy Warning Is Reinforced by Ford," *Newsday (1940-), Nassau Ed.*, September 23, 1974.

[41] "Experts See Restraints Hurting Energy Front: Ecology Drive Cut Urged," *The Austin American Statesman (1973-1980), Evening Ed.*, September 24, 1974.

[42] "Experts See Restraints Hurting Energy Front."

[43] "U.S. Considering $1 Billion Solar Energy Program," *The Atlanta Constitution (1946-1984)*, September 28, 1974.

[44] "Sierra Club Blasts Energy Conference," *The Austin American Statesman (1973-1980), Evening Ed.*, September 26, 1974.

ecologically-conscious endeavor, as the liberation of the global oil market from OPEC's grip would go in hand with environmental deregulation and the West's continued reliance on fossil fuels—domestic and foreign.

Ford and Kissinger's words also drew condemnation from Iran and Venezuela—and further isolated Saudi Arabia within OPEC. While the Shah once again defended the economic legitimacy of the fourfold oil price increase, Venezuelan President Carlos Andres Perez mobilized the NIEO's rhetoric to categorically reject Ford's accusations against OPEC, claiming instead that the cartel was nothing but a "direct consequence of the developed countries' use of a policy of outrageously low prices for our raw materials as a weapon of economic oppression."[45] This triggered calls for an emergency OPEC meeting to resist America's intensified demands for lower oil prices. Saudi Oil Minister thus found himself alone within OPEC arguing that oil prices were too high, all while threading carefully not to challenge the economic arguments of his peers.[46] And indeed, Saudi Arabia was under tremendous American pressure to hold the line in OPEC. The U.S. State Department had conveyed to Faisal that he carried "heavy responsibility" for the "free world's economic health." The process that would come to be known as Globalization could only be efficiently managed through the free market – one for which Saudi Arabia held the keys: "What is required is continuing understanding that we live in an interdependent world and that the free world will suffer if measures are taken to prevent market forces from determining a fair price for oil," which required Saudi Arabia's "statesmanlike approach on oil prices."[47] But ensuring Saudi cooperation on oil prices required resolving a major hurdle: managing Saudi Arabia's fast-growing

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[45] Juan De Onis, "Oil Nations Plan Price Strategy," *The New York Times (1923-Current File)*, September 30, 1974, https://www.proquest.com/news/docview/120000536/A500DAD568D4DD0PQ/6?accountid=11311.

[46] De Onis.

[47] "Telegram From the Department of State to the Embassy in Saudi Arabia," September 16, 1974, *FRUS*, Vol. XXXVII, Doc. 5, 5, https://history.state.gov/historicaldocuments/frus1969-76v37/d6.

petrodollars reserves. Petrodollars thus moved to the center of a global economic debate, threatening once again to divide the West, to exacerbate tensions between OPEC and oil-importing countries, and to fan the flames of the Third World's economic insurgency.

II. Between Crisis and Opportunity: The Challenges of International Petrodollar Recycling

While a return to Western cooperation and the rise of a new U.S.-Saudi special relationship might at first have seemed to be easily compatible, Kissinger's strategy was strained by growing debates on the management of OPEC's petrodollars. As oil producing countries' trade surpluses skyrocketed, it became increasingly urgent to find an adequate means to manage these dozens—or even hundreds—of billions of dollars. Western capitals and financial centers were filled with a mix of dread and optimism: officials wondered whether this newfound wealth would give OPEC countries an undue influence in the industrialized world's internal affairs, and fears abounded that petrodollar flows might destabilize the world's financial markets and currencies. But this did not deter states, banks, and international organizations from competing to attract and benefit from OPEC's oil money. The United States, Western Europe, and Japan arose as rival contenders vying to channel petrodollars into their banking systems—raising unease among Arab leaders, who worried that the West just wanted to seize their new wealth. Meanwhile, alternative petrodollar recycling schemes sprang up among multilateral organizations such as the IMF and the OECD—with the promise of allocating these funds more equitably. And, galvanized by the NIEO, developing countries also demanded that petrodollars be used as aid for the Global South to level the global playing field. A heated debate thus ensued as banks, states, and international institutions sought to attract petrodollars—pitting the conflicting interests of the industrialized countries, the developing world, and OPEC against each other. Ultimately, these tensions revealed the mounting challenges of ordering an increasingly interdependent world.

OPEC's oil price hike transformed the world's financial landscape, allowing oil-producing countries—and especially the sparsely populated Arab states of the Persian Gulf—to accumulate unprecedented amounts of revenues that could not be absorbed by their economies. In contrast to populous countries such as Algeria, Indonesia, Iran, Iraq, Nigeria, or Venezuela—which had ambitious plans for modernization and industrialization and could spend between 40% and 60% of their new oil revenues domestically or as imports—small states such as Kuwait and the United Arab Emirates had little use for their rapidly-growing petrodollar reserves.[48] For instance, Kuwait—with less than a million inhabitants—would see its oil revenues almost quadruple from under $2 billion in 1973 to over $7 billion in 1974, out of which only about 15 to 20% could be spent by the state. Kuwait's Al-Sabah rulers would thus be left with about $6 billion excess funds for which they had to find an outlet abroad.[49] The largest amounts of surpluses, however, would belong to Saudi Arabia: these were set to grow exponentially from $4 billion in 1973 to a staggering $25 billion in 1974. But without any significant industrial base or pool of consumers, the kingdom's economy could not absorb these funds: injecting over twenty billion more dollars into the Saudi economy would generate hyper-inflation—being the equivalent of printing money uncontrollably. Thus, these oil profits needed to be placed in safe financial investments abroad by the Saudi Arabian Monetary Authority (SAMA). And, given that over 90% of Saudi government

[48] OECD Secretariat, "The Medium Term Balance of Payments Implications of the Oil Situation," November 25, 1974, CHR, F239728, Oil Price Mechanism, Energy Situation and OPEC, OECD Archives, Paris, France.

[49] "International Economic Impact of Increased Oil Prices in 1974," January 1, 1974, General CIA Records, ESDN (CREST): CIA-RDP85T00875R001500190021-9, CIA Freedom of Information Act Electronic Reading Room, https://www.cia.gov/readingroom/docs/CIA-RDP85T00875R001500190021-9.pdf.

expenditure had historically been financed by oil revenues, these investments also had to be liquid enough to be freely recalled into the kingdom to cover government spending on a short notice.[50]

But a new and sudden influx of dozens of billions of dollars into global financial markets presented a complex mix of threats and opportunities. For instance, by September 1974, among the $12.7 billion held in Saudi foreign exchange reserves, 77% had gone into bank deposits, the majority of which were placed in the Eurodollar market—that is, dollar-denominated financial instruments held and traded in European banks.[51] While Western commercial banks may have initially welcomed such an unprecedented placement of deposits, managing petrodollars proved to be a daunting task. Due to Arab countries' demand for liquidity, these funds were placed in short-term one-month deposits, which had to be constantly rolled over. Hence, bankers risked depending excessively on a single creditor, and were vulnerable to massive withdrawals of funds from Arab governments. Banks might have also been too tempted to lend these funds irresponsibly, especially given the unprecedented demand for loans among oil-importing countries—rich and poor—that were struggling to pay their oil bills. The U.S. Congress thus held hearings during the summer of 1974 on the "International Petrodollar Crisis," raising concerns about the global banking system's increasing difficulty in absorbing such funds, and the risk that it could lend them without the necessary due diligence and oversight—which could also plunge the world into an international banking crisis.[52] Hence, finding an adequate petrodollar recycling mechanism that would ensure international financial stability became a global concern.

[50] Banafe and Macleod, *The Saudi Arabian Monetary Agency, 1952-2016*, 49–60.

[51] The remaining 23% had been held as assets in international financial institutions (13%)—especially IMF Special Drawing Rights (SDRs)—as well as government and corporate bonds (8%) and stocks (2%). Banafe and Macleod, 53.

[52] United States Congress House Committee on Banking and Currency Subcommittee on International Finance, *International Petrodollar Crisis: Hearings before the Subcommittee on International Finance of the Committee on*

But the petrodollar question was not just an economic matter—it was also deeply geopolitical. For instance, Kissinger worried about the leverage that oil money could give to Arab countries—even to close allies such as Saudi Arabia, which could use its leverage for an "ultimatum on Israel" or to "squeez[e] us when they want."[53] In Congress, Abraham Ribicoff—Connecticut's first Jewish Senator—warned that this new-found Arab wealth was not just menacing the international banking system, but it was a "political and economic problem that [went] to the roots of our economic well-being and to the basis of our civilization. The Arabs have thrown down the gauntlet to the West, and we must recognize this challenge for what it is."[54] And indeed, U.S. public opinion had begun to fear the ability of oil-rich Arabs to subvert the American economic and political system. Caricatures of greedy oil sheikhs holding Americans hostage abounded in the American printed press, and U.S. popular support for Israel and dislike towards Arabs increased during and after the embargo. New stereotypes about Arabs proliferated: they allegedly were not just violent and backward, but also distastefully *nouveau riche* and dangerously greedy; their ill-acquired wealth was threatening the American way of life.[55]

Such concerns about the potential detrimental effects of OPEC's petrodollars were not limited to the United States. The OECD's General Secretariat also worried that quick fluctuations of petrodollar flows could create liquidity problems in the Eurodollar markets, which came right

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Banking and Currency, House of Representatives, Ninety-Third Congress, Second Session. July 9 and August 13, 1974 (Washington: U.S. Govt. Print. Off., 1974), 1–12.

[53] "Memorandum of Conversation," Washington, August 3, 1974, *FRUS*, Doc. 362.

[54] "Statement by Senator Abe Ribicoff," in *Recycling of Petrodollars: Hearing before the Permanent Subcommittee on Investigations of the Committee on Government Operations*, United States Senate, Ninety-Third Congress, Second Session, Pursuant to Section 4, Senate Resolution 269, 93d Congress, October 16, 1974 (Washington, D.C.: U.S. Govt. Print. Off., 1974), 7–10.

[55] Salim Yaqub, *Imperfect Strangers: Americans, Arabs, and U.S.–Middle East Relations in the 1970s* (Ithaca, NY, and London: Cornell University Press, 2016).

as major economies such as Italy were facing potential bankruptcy and needed urgent financing.[56] At a June 1974 meeting of the OECD's Business Industry Advisory Committee (BIAC), international bankers claimed to be "extremely […] pessimistic about the ability of the banking system to handle the amounts of short-term money which the oil producers will acquire this year."[57] Banks had already reached the limit that they could take in short-term deposits, and found it increasingly difficult to use this short-term money to provide medium- or long-term lending to the oil-importing countries that needed to finance their growing deficits.[58] Indeed, high oil prices had produced an explosion of private bank credits: during the first half of 1974, banks had already lent over $22 billion in international medium-term loans—more than had been loaned in 1973 during the entire year.[59] But for international capital markets to continue serving as intermediaries for these transactions, they needed OPEC countries to place their revenues in medium- or long-term investments. European bankers thus worried that oil-producing countries "refuse[d] to put their money in anything but very short-term liquid investments and […] even if they were convinced that this was profitable, they would be unable to make the change due to a lack of knowledge, expertise, infrastructure, etc."[60] This resulted in the anomalous situation of pushing Eurodollar short-term interest rates above long-term rates.[61] The BIAC thus concluded that the

[56] J Boughton to Mr. Shigehara, "The Role of Euro-Currency Markets in 1974," February 6, 1974, CHR, F239725, Oil Impact in Petroleum Exporting Countries, OECD Archives, Paris, France; Raymond Bertrand to Secretary General, "Un fonds de garantie O.C.D.E.," May 24, 1974, F229551, Correspondence on the oil crises in the context of invisible transactions, OECD Archives, Paris, France.

[57] Marris to Travers, "Oil Prices and Payments," June 13, 1974, F229551, Correspondence on the oil crises in the context of invisible transactions, OECD Archives, Paris, France.

[58] Marris to Travers.

[59] J.W. Hackett, "Report on Meeting of Committee on Financial Markets and Joint Meeting with Private Bankers on 3rd-5th July 1974," July 9, 1974, CHR, F239728, Oil Price Mechanism, Energy Situation and OPEC, OECD Archives, Paris, France.

[60] Marris to Travers, "Oil Prices and Payments," June 13, 1974.

[61] In July 1974, medium-term interest rates for prime borrowers in Euro-markets reached 14%, as opposed to 9% in January 1974. This made it increasingly costly for countries to borrow dollars internationally to pay for oil, and

traditional banking system could not solve the petrodollar problem without potentially unleashing a major crisis. It called upon OECD governments to intervene directly in financial markets to devise an institutional recycling mechanism that would use petrodollars to finance oil deficits.[62]

To be sure, American bankers were divided vis-à-vis the BIAC's grim assessment. For instance, Chase Manhattan Bank President David Rockefeller urged for "unusual prudence and caution on the part of bankers," lest a financial panic could "topple important companies in major industries."[63] Despite having concluded a deal with Saudi Arabia to invest $200 million of its state funds, he pressed for petrodollars to be managed multilaterally by governments instead of private corporations.[64] Others like Citicorp Chairman Walter Wriston, however, pushed for banks to play a leading role in managing petrodollars, and was aggressively expanding Citibank's presence into Bahrain, Dubai, Abu Dhabi, Qatar, Saudi Arabia, and Egypt.[65] With an unyielding belief in the superiority of the market in allocating money, he refused to join what he called a "chorus of despair" and extolled his great "faith in the extraordinary strength and flexibility of the global marketplace."[66] Wriston did not downplay the challenges posed by the petrodollar boom—on the contrary, in his own words, "The scope and complexity of the global financial market beggars description." But it was for this precise reason that he deemed that no government authority could

especially for sub-prime developing countries. Hackett, "Report on Meeting of Committee on Financial Markets and Joint Meeting with Private Bankers on 3rd-5th July 1974."

[62] Raymond Bertrand to Secretary General, "Compte-rendu de la réunion entre le groupe à haut niveau sur les marchés financiers du BIAC et le secrétariat (12 juin 1974)," June 14, 1974, F229551, Correspondence on the oil crises in the context of invisible transactions, OECD Archives, Paris, France.

[63] "US Bankers Fear next Six Months," *The Guardian (1959-2003)*, August 6, 1974.

[64] M. V. KAMATH The Times of India News Service, "Arab Oil Revenues Flow West," *The Times of India (1861-2010)*, April 26, 1974; "US Bankers Fear next Six Months."

[65] "Arab Oil Revenue Flowing West, Some for St. Louis," *St. Louis Post-Dispatch (1923-2003)*, May 5, 1974.

[66] Walter Wriston, "The Oil Shock Plus 5! A Reassessment" (Transcript of Speech, U.S. Chamber of Commerce of Sao Paulo, Sao Paulo, September 14, 1978), Walter B. Wriston Papers, Tufts Digital Library, https://dl.tufts.edu/concern/pdfs/r207v1371.

ever efficiently manage the "literally billions of transactions […] initiated, consummated and cleared through the system by thousands of intermediaries in more than a hundred countries." On the contrary, this required flexibility—not regulation—and only the free market could effectively cope with what amounted to an "infinitely complex adjustment process."[67]

But the BIAC's doom and gloom predictions seemed to be materializing when Herstatt Bank—one of West Germany's 80 largest banks—was liquidated on June 26th, 1974, with a rippling effect that caused financial losses in Wall Street. When it came to light that Herstatt Bank had been over-trading in foreign exchange and holding excess positions in the Eurodollar market, a short-lived panic ensued: banks around the world repatriated their assets, withdrawals from commercial German banks spiked, and Eurodollar interest rates increased sharply. The Herstatt affair thus damaged global interbank relations, and eroded confidence in lesser-known banks—which competed to raise their interest rates.[68] From the City of London to New York and Tokyo, banks and governments tried to contain the damage, which would eventually prompt the establishment of the Basel Committee on Banking Supervision in 1975.[69] But, while none of this escalated into a major international banking disaster, it caused a crisis of confidence in Eurodollar markets—which were already saturated with petrodollars—and produced a reflow of OPEC's funds from Europe to New York. This put upward pressure on the dollar and caused further contraction in international liquidity.[70] Wall Street thus began effectively contending with the City

[67] Wriston.

[68] Catherine R. Schenk, "Summer in the City: Banking Failures of 1974 and the Development of International Banking Supervision," *The English Historical Review* 129, no. 540 (2014): 1129–56, https://doi.org/10.1093/ehr/ceu261.

[69] The Herstatt affair was not an isolated affair; 1974 also saw other lesser-known scandals and failures in Lloyds Bank International and the Israel-British Bank, all of which justified a reinforcement of international banking supervision. See Schenk.

[70] S.N. Marris to B. Barenco, "Reflow of Funds to New York," July 12, 1974, F229551, Correspondence on the oil crises in the context of invisible transactions, OECD Archives, Paris, France. In fact, U.S. banks were more tightly regulated than Eurodollar markets: according to the Federal Reserve's definition, foreign lending by New York

of London, Frankfurt, Paris, Zurich, and Amsterdam to attract Arab petrodollars—arousing fears of an unhealthy competition among the world's leading financial centers that could once again undermine the West's bargaining power vis-à-vis OPEC.[71]

The OECD General Secretariat thus concluded that a new official or semi-official multilateral recycling arrangement was needed to provide a safety net for the international financial system. While several options were discussed—including adding a financial component to the future IEA, joint borrowing by the European Economic Community, bilateral lending by the United States and Germany, or working with existing institutions such as the International Monetary Fund—the OECD leadership proposed its own recycling scheme in conjunction with the Bank of International Settlements (BIS). According to this framework, the BIS could borrow from international financial markets or directly from OPEC—hopefully through long-term arrangements—and the OECD could steer the fund politically by providing joint guarantees, establishing procedures to determine its members' borrowing eligibility and criteria, determining its loans' conditionality, and overseeing member states' use of the funds. However, this posed a clear problem: an OECD-BIS recycling mechanism would be limited to OECD members and would only address the financing needs of the world's richest economies. The Third World would not be able to access these funds, reinforcing a growing structural wealth gap between North and

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banks increased U.S. money supply, so U.S. private banks' foreign lending activities were limited by interest rate ceilings and reserve requirements in accordance to U.S. domestic monetary policy. In contrast, European banks could lend dollars to foreigners without any limits beyond creditworthiness and financial ratios—which made them the initial preferred route for petrodollar credit intermediation.

[71] S.N. Marris to Secretary General, "The Financing Problem - Talking Points for Visit of Secretary Simon," July 24, 1974, F229551, Correspondence on the oil crises in the context of invisible transactions, OECD Archives, Paris, France.

South. This would not sit well with the masses of developing countries that had recently called for radical international economic redistribution at the United Nations.[72]

And indeed, the world's Less Developed Countries were facing dire straits: most African, Asian, and Latin American countries were cut off from the world's capital markets, and they urgently needed loans—not on profit-driven commercial terms, but on development-oriented concessional terms. Higher oil prices had not only pushed developing countries into growing deficits, but they had also caused a spike in fertilizer costs—leading to food shortages and increasing grain prices.[73] While these countries had sought to emulate OPEC by raising commodity prices, their export earnings remained limited: with the industrialized world facing economic stagnation, demand for non-oil commodities languished or fell. In this context, for instance, Kenya, Tanzania, and Uganda had to collectively pay $178 million more dollars for oil in 1974 versus the previous year. Jamaica would have to pay an additional $123 million—which amounted to half of the island's export earnings—a gap that Prime Minister Michael Manley's efforts to increase prices for his country's bauxite exports was unlikely to cover. And India would need to use as much as 60% of its $1.4 billion in export earnings to purchase oil while being forced to tap into its foreign exchange reserves to meet its foreign debt obligations.[74]

But LDCs' problem had also been made worse by deliberate policy choices of the Nixon administration: throughout the crisis, the White House had considered that, if international

[72] Marris to Secretary General; "An O.E.C.D./B.I.S. Agreement on Financing: Preliminary Outline," July 26, 1974, F229551, Correspondence on the oil crises in the context of invisible transactions, OECD Archives, Paris, France; "Questions on the O.E.C.D./B.I.S. Agreement on Financing," August 7, 1974, F229551, Correspondence on the oil crises in the context of invisible transactions, OECD Archives, Paris, France.

[73] "Paper Prepared by the Ad Hoc Group of the International Energy Review Group Working Group," March 29, 1974, *FRUS*, Vol. XXXVI, Doc. 346, https://history.state.gov/historicaldocuments/frus1969-76v36/d302.

[74] "Oil: How the Poor Nations Hope to Pay Their Bills," *Business Week*, April 6, 1974, in *International Petrodollar Crisis: hearings before the Subcommittee on International Finance of the Committee on Banking and Currency*, 116.

institutions or industrialized countries came to the developing world's aid, this would weaken the case for an oil price rollback, as OPEC's price hike would appear to be manageable. U.S. officials noted that, "conversely, if we do nothing, the full effects of the financial hardships on LDCs will be manifested in a strong expression of world public opinion aimed at a price rollback."[75] However, the U.S. still had a vested interest in protecting the stability of certain strategic geographies—such as South Vietnam, Chile, South Korea, and the Caribbean—and it feared the prospect of starvation, food riots, and even terrorism from Africa to South Asia. The United States thus decided not to increase development aid despite the crisis, but to strategically redistribute it to the hardest-hit LDCs. Better-off aid recipients—from Latin America to East Asia—would thus be forced into either taking commercial loans from international private banks or begging for OPEC's assistance. As a result, oil-importing developing countries would have to collectively find between $10 and $23 billion to finance their deficits for 1974.[76] This led the Philippines, for instance, to raise a $500-million loan from a group of New York banks—a third of which would pay for oil.[77] Kissinger thus hoped that this mounting financial strain might fracture the Global South by turning growing numbers of developing countries against OPEC.[78] Additionally, shifting the burden of providing development aid towards OPEC would hold oil-producing countries responsible for the consequences of their actions, and might even make them reconsider the oil price hike altogether.[79]

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[75] "Paper Prepared by the Ad Hoc Group of the International Energy Review Group Working Group."

[76] M.S. Mendelsohn, "Those Oil Deficits - Pick a Number," *Euromoney*, April 1974, in *International Petrodollar Crisis: Hearings before the Subcommittee on International Finance of the Committee on Banking and Currency*, 201-202.

[77] "Oil: How the Poor Nations Hope to Pay Their Bills."

[78] "Paper Prepared by the Ad Hoc Group of the International Energy Review Group Working Group."

[79] Peter Flanigan, Assistant to the president for International Economic Affairs to Henry Gonzalez, Chairman of the Subcommittee on International Finance of the House of Representatives, May 30, 1974, in *International Petrodollar Crisis: Hearings before the Subcommittee on International Finance of the Committee on Banking and Currency*, 156-157.

But to Kissinger's great frustration, and confounding all expectations, the Global South remained stubbornly united behind OPEC. British Chancellor of the Exchequer Denis Healey, for instance, lamented how the oil crisis had sown tensions within the British Commonwealth, where none of the LDCs supported "white Commonwealth countries' view that oil prices [were] too high." Instead, they considered the world's economic situation to be a "legitimate exploitation of market power rather than unfair use of monopoly power."[80] After all, they held high hopes that OPEC countries—and especially Arab states—would come to their rescue. And indeed, OPEC states multiplied their promises and gestures for the non-oil developing world: In April 1974, Hassan Shash, Egypt's Ambassador to Ghana, announced that Arab oil states had set aside $800 million to help African countries; Libya's Gaddafi also put in place a three-tier price system for Libyan oil that would give lower prices to LDCs and Muslim-majority countries such as Pakistan. Meanwhile, India had negotiated bilateral oil purchase agreements at rates 20 to 40% below OPEC's posted price with both Iran and Iraq. And a committee within OPEC had begun discussions on creating a dedicated petrodollar fund to provide cheap loans to the developing world.[81] Developing countries would not help bring prices back down and would fight for alternative mechanisms to finance their deficits. And in this context, they also had high hopes for the IMF and its new Oil Facility.[82]

Since the Committee of 20's meeting in Rome in January 1974, IMF Managing Director Johannes Witteveen had been working on his proposal to recycle OPEC's petrodollars through a dedicated IMF Oil Facility. This temporary structure would borrow funds from OPEC countries,

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[80] "Memorandum of Conversation," September 28, 1974, *FRUS*, Vol. XXXVII, Doc. 9, https://history.state.gov/historicaldocuments/frus1969-76v37/d9.

[81] "Oil: How the Poor Nations Hope to Pay Their Bills."

[82] "Memorandum of Conversation," September 28, 1974, *FRUS*, Vol. XXXVII, Doc. 9, https://history.state.gov/historicaldocuments/frus1969-76v37/d9.

which could then be drawn at low interest rates by petroleum-importing countries to make monetary adjustments according to their oil-induced deficits—without having to incur other forms of debt or tapping into their foreign exchange reserves.[83] Witteveen had thus traveled to Venezuela, the Middle East and North Africa between February and April 1974 to seek contributions for his proposed structure, and pushed the C-20 to settle on the valuation and interest rates applied to Special Drawing Rights (SDRs)[84]—in which these petrofunds would be held instead of U.S. dollars.[85] During its final meeting in June, 1974, the Committee of 20 formally established the IMF Oil Facility, and by July, it had drawn petrodollar commitments from oil-producing states such as Abu Dhabi, Canada, Iran, Kuwait, Oman, Saudi Arabia, and Venezuela amounting to close to 3 billion SDRs, or about $3.4 billion.[86] Witteveen thus hoped that the facility would grow to become the world's main petrodollar recycling mechanism that would address the payments imbalances triggered by the oil shock.[87]

But, while developing countries were enticed by this framework, OPEC countries were less eager to place their holdings in the IMF: the Fund's desire to provide low-interest loans was

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[83] Johannes Witteveen, "Financing the Oil Deficits," *Euromoney*, April 1974, in *International Petrodollar Crisis: Hearings before the Subcommittee on International Finance of the Committee on Banking and Currency,* 208-209.

[84] Special Drawing Rights are an international reserve asset created by the International Monetary Fund in 1969—in the context of the progressive abandonment of the Bretton Wood system. They don't operate as a currency or a claim on the IMF, but allow member states to claim any currency held by other IMF member states, giving them cost-free access to foreign currencies. SDRs are also used by certain international financial institutions as units of accounts, representing a mix of world currencies—initially US Dollars, Japanese Yen, Pound Sterling, Deutsch Mark and French Franc—allowing countries to hedge against exchange currency volatility. The Saudi Riyal was pegged to the SDR from 1975 to 2007.

[85] Ian McDonald, "Fund Activity: Strains on the Monetary System," *Finance and Development: A Publication of the International Monetary Fund and the World Bank Group* 11, no. 2 (June 1974): 36–38, IMF eLibrary.

[86] The June 1974 C-20 meeting decided upon a valuation for the SDR based upon a basked of 16 currencies, with an annual interest rate of 7%. For details on the valuation of SDRs in June 1974, see "The New Method of Valuing Special Drawing Rights," Q3 1974, Bank of England Quarterly Bulletin, https://www.bankofengland.co.uk/-/media/boe/files/quarterly-bulletin/1974/the-new-method-of-valuing-special-drawing-rights.pdf.

[87] Ian McDonald, "The Fund and Monetary Reform: Looking to the Future," *Finance and Development: A Publication of the International Monetary Fund and the World Bank Group* 11, no. 3 (September 1974): 16–18, IMF eLibrary.

certainly attractive for borrowers in the Global South, but not so much for the oil-producing lenders.[88] Hence, Saudi Arabia's Oil Minister Ahmed Zaki Yamani initially rejected Witteveen's proposal. In May 1974, he coated his opposition to an IMF Oil Facility in anticolonial rhetoric, framing it as an attempt by a Western international organization to take control of OPEC's oil revenues: "We won't be amenable to letting that money recycle to the Western economy for the sake of the Western economy as such."[89] But, perhaps more importantly, he also mentioned that he feared that high inflation rates in the West would erode the value of Saudi Arabia's reserves—which would certainly be the case if the IMF's low interest yield did not keep up with inflation. Indeed, the petrodollar question showcased how difficult it was to reconcile the diverging interests of OPEC and the rest of the world—and oil-producing states were frustrated that none of the proposed petrodollar recycling schemes seemed to take their needs into consideration.[90]

After all, the Gulf's Arab countries were facing a whole other gamut of problems when it came to the petrodollar boom. At the Bankers Trust Company Anniversary Conference in London in September 1974, Abdlatif Al-Hamad, Director-General of the Kuwait Fund for Arab Economic Development, explained that Kuwait, Saudi Arabia, and Abu Dhabi were struggling to manage their growing portfolios of foreign financial assets, which were threatened by the West's "repeated devaluations and galloping inflation." The Gulf's Arab countries—whose economies could

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[88] Marris to Secretary General, "The Financing Problem - Talking Points for Visit of Secretary Simon," July 24, 1974.

[89] "Yamani Rejects IMF Proposal: Saudis to Keep Oil Money," *The Washington Post*, May 10, 1974, in *International Petrodollar Crisis: hearings before the Subcommittee on International Finance of the Committee on Banking and Currency*, 196; E. Walter Robichek, "The Payments Impact of the Oil Crisis: The Case of Latin America," *Finance and Development: A Publication of the International Monetary Fund and the World Bank Group* 11, no. 4 (December 1974): 15, IMF eLibrary.

[90] Saudi Arabia would eventually become the facility's largest funder, but its contributions would be limited to about \$1.2 billion in 1974—just a small portion of its \$25 billion surplus funds. See E. Walter Robichek, "The Payments Impact of the Oil Crisis: The Case of Latin America," *Finance and Development: A Publication of the International Monetary Fund and the World Bank Group* 11, no. 4 (December 1974): 15, IMF eLibrary.

perfectly thrive with less than a third of the ongoing oil production—were being pressured to increase their oil output to meet the world's oil demand, but this would accelerate the growth of their already-unmanageable foreign exchange reserves.[91] Hence, Al-Hamad explained that the Arab world had a petrodollar problem of its own:

> To be sure, we understand other countries' difficulties and would even endeavor to help in alleviating them to the best of our means, but we simply cannot afford to witness passively the rapid erosion of the value of our foreign financial assets at a time when we are called upon to go on increasing them.[92]

Al-Hamad also derided how, in the Western imaginary, Arabs just wanted to get rich fast. On the contrary, he claimed that Arabs were being given increasingly worthless "pieces of paper" by the West in exchange for their precious oil. It was thus unfair to be "practically obliged to keep on accumulating rapidly depreciating monetary assets," and it was even more humiliating to do so under countless recycling schemes that were "daily thrust upon [them]."[93]

The Arab world's position was made more difficult by the absence of any substantive Arab capital markets. The only Arab country that was seriously trying to provide outlets for the Gulf's petrodollars was Lebanon. However, Al-Hamad noted that, rather than truly intermediating capital flows for the sake of Arab development, Beirut merely served as an "entrepot" linking Arab capital to foreign investment funds in the West and Japan. In fact, with 85% Lebanon's banking activity carried out by foreign firms, Al-Hamad asked whether Beirut was actually stifling the development of local Arab financial institutions.[94] He also foresaw that, in the absence of any alternatives, Gulf

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[91] Abd al-Latif Yusuf Al-Hamad, "International Finance: An Arab Point of View" (Kuwait: Kuwait Fund for Arab Economic Development, September 17, 1974), Gulf Microfiche Collection, Arab World Documentation Center, University of Exeter, Exeter, United Kingdom.

[92] Al-Hamad.

[93] Al-Hamad.

[94] Abd al-Latif Yusuf Al-Hamad, "Arab Capital Markets and the Recycling of Petrofunds" (Kuwait: Kuwait Fund for Arab Economic Development, November 1974), Kuw.1 KFAED, Gulf Microfiche Collection, Arab World Documentation Center, University of Exeter, Exeter, United Kingdom.

states might fall into the temptation of limiting their investments in the Arab world to real estate—creating bubbles without developing any local productive capacity. Instead, Al-Hamad hoped that the oil boom could provide an opportunity for the Arab world to overcome its institutional weaknesses, move from the world's periphery to its center by developing competitive industrial, financial, and service sectors, and bring about a second *Nahḍa*—a new awakening or renaissance for the Arab people.[95]

But fulfilling this vision would require the Arab world and the West to stop their mutual recriminations and reach a consensus on some common denominators. For instance, if, in the past, the West had opened the Arab world up to foreign investment, the time had come for the West to open its own markets to investments and borrowing from OPEC and its Arab states. By investing in Western stocks, bonds, and other securities, the Arab world could boost capital production and exports in the industrialized world, but the West had to overcome its mistrust and accept that OPEC would "no longer meekly accept to be confined to the role of mere raw material producers."[96] Instead, OPEC and the West had to build "a true partnership based on economic equality, mutual advantage, and the interlocking and interpenetration of industrial and financial structures"—establishing new joint ventures and exchanging technology for petrodollars. But he also gave an ominous warning: if such an arrangement was not found, even the friendliest Arab states risked being "carried away sooner or later by the centrifugal forces at play in all the developing countries in the world."[97] Hence, the Gulf's oil-rich Arab monarchies also stood at a crossroads: they could either find a mutually-agreeable path for supporting the West's economic recovery, or they could join hands with the rest of the Third World in its anticolonial economic revolt. In the end, it was

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[95] Al-Hamad.

[96] Al-Hamad, "International Finance: An Arab Point of View."

[97] Al-Hamad.

the United States and Saudi Arabia that led the way in building this mutually beneficial partnership combining oil trade and petrodollar recycling—with an enduring impact on global capitalism.

III. A New Grand Bargain: U.S.-Saudi Petrodollar Recycling and the Return of Western Ascendancy

On September 28, 1974, amid these heated international debates, Kissinger brought the finance and foreign ministers of the "Big Five"—the United States, Britain, West Germany, France, and Japan—to Camp David to discuss the Energy Crisis, and especially the thorny issue of petrodollar recycling. Known as the "Library Group" after first being hosted by Nixon in the White House library in 1973, this exclusive club drew together the world's five largest capitalist economies, providing an intimate closed-door setting to discuss issues of global concern. Kissinger started off by boasting on America's victory in the bilateral oil scramble of the preceding months: the United States had shown that the economic dimension of the oil crisis was insoluble bilaterally—except for the U.S., which had kept its leadership and influence in the Persian Gulf. The bilateral approach thus had to be unanimously rejected in favor of a coordinated response among oil-importing countries—and petrodollar recycling could serve as a testing ground for Western cooperation. Estimating that OPEC would hold an estimated $65 billion in excess profits for 1974, Kissinger asked whether the West should even welcome OPEC's funds, along with the political clout that came with it. After all, there were many ways in which they could be problematic: "In our judgement, these revenues are not merely entries in bank accounts, since sooner or later they will be converted into command over resources, and thus into political power."[98] Given OPEC's ability to shift these financial assets between countries, they could use

[98] "Memorandum of Conversation," Doc. 9.

petrodollars as leverage to once again divide or blackmail the West—potentially holding the recipients of petrodollars as "political hostages." This could fundamentally transform North-South relations: for instance, in a twist of irony, Italy was kowtowing to its former colony of Libya as it begged for a financial bailout. And even worse, if Arabs chose to use their revenues to purchase arms instead of investing them in financial markets, this could increase the risk of war in the Middle East, destabilize world peace, and produce another oil shock.[99]

The rest of the Library Group broadly shared this assessment. West German Vice-Chancellor and Foreign Minister Hans-Dietrich Genscher agreed that OPEC's growing wealth signaled a shift in global political power that threatened the stability of the industrialized world. British Chancellor of the Exchequer Denis Healey was particularly concerned about the prospects for a buildup in armaments in the Middle East, which made another breakdown in oil supplies likelier. He also questioned whether OPEC countries could preserve their internal socio-political stability with this new wealth: instead of being an economic blessing, the petrodollar boom could turn out to be the source of new social tensions and lead to civil strife. Meanwhile, Japanese Finance Minister Masayoshi Ohira was adamant that oil producing countries could inadvertently trigger banking crises if they did not invest in longer-term assets. For French Foreign Minister Jean Sauvagnargues, this meant that private banks had to resist the temptation of thoughtlessly accepting petrodollars until Western governments found the right means to ensure their long-term stability by providing OPEC with investment guarantees.[100]

But if the Library Group held a shared diagnostic, they found it harder to agree on a remedy. Kissinger suggested that a new recycling mechanism should be established among the Big Five:

[99] "Memorandum of Conversation."

[100] "Memorandum of Conversation."

they could create a common trust fund with $15 billion a year from which to draw loans and investments to deal with high oil prices—in a way that would prevent OPEC countries from controlling and moving these assets for political leverage over the West.[101] For the CIA, this signaled a focus on solving "'our' […] recycling problem rather than the world recycling problem."[102] Moreover, in line with the *laissez-faire* attitudes ascendant among U.S. Republicans, Treasury Secretary Simon advocated for the prioritization of private markets as the preferred means for petrodollar recycling. Going against the assessment of the BIAC, he claimed that "the private market ha[d] performed marvelously. Commercial banks and the Euro markets have been able to absorb the inflows," and the dreaded banking crisis had not materialized. Given that concerns about private banks' inability to continue intermediating petrodollar transactions had been exaggerated, the world's top financial centers could confidently stand as the primary centers for petrodollar recycling. Any new institutional structure—including the one proposed by Kissinger—had to be subordinated to the market.[103]

But the British and French governments were quick to oppose America's plans. On the contrary, British Chancellor Healey held a firm preference for the IMF Oil Facility: if left to the market, recycling flows would not match deficit needs, but would instead go to the countries with the best credit scores. This stood in stark contrast with Witteveen's more equitable framework, which had to be strengthened and expanded: "It is a political action to sidestep existing institutions. The IMF has taken on this objective. We have already incurred risks by holding this meeting. We should limit the scope of our activities, in treating world problems *à cinq*." He then went on to

[101] "Memorandum of Conversation."

[102] "US Strategy for Lowering Oil Prices," n.d., General CIA Records, ESDN (CREST): CIA-RDP80R01720R000900040012-2, CIA Freedom of Information Act Electronic Reading Room, https://www.cia.gov/readingroom/docs/CIA-RDP80R01720R000900040012-2.pdf.

[103] "Memorandum of Conversation," Doc. 9.

warn about the public relations disaster that would follow if the Third World found out that the world's richest countries were setting up a "mutual aid society" that excluded those in greatest need—a view seconded by French Minister of Economic Affairs and Finance Jean-Pierre Fourcade. The Camp David Library Group meeting thus ended inconclusively, leaving European officials concerned about America's hidden designs on OPEC's petrodollars.[104]

French and British treasury and foreign ministry officials followed up privately in October 1974 at the *Quai d'Orsay* in Paris, discussing their reactions to America's proposals—which, in their view, were adding oil to the fire. Both sides lamented Ford's provocative speech in Detroit criticizing OPEC, which had only provided fodder for the likes of Boumediene to continue fanning anti-Western feelings in the Middle East and the developing world. Meanwhile, French Treasury Director and future IMF Managing Director Jacques de Laroisière aired his distrust towards Kissinger—who, in his view, was not just neglecting the IMF facility, but purposefully trying channel most of the world's petrodollars into New York. If this were to be the case, the United States would take the ultimate charge of recycling OPEC's funds to the rest of the world—taking on an exorbitant amount of power and responsibility. Laroisière thus supported Healey's proposal to enhance the IMF facility, which he feared was being pushed aside by both the U.S. and OPEC. And like Healey had done at Camp David, he also questioned whether the Big Five should ever meet again as a *club des riches*: it was distasteful for industrialized countries to help themselves with $15 billion a year when they were reducing public aid to the developing world.[105] For all

[104] "Memorandum of Conversation."

[105] "Record of Meeting with French Officials at the Quai d'Orsay on 24 October 1974," November 27, 1974, FCO 8/2156, Anglo-French Talks on Gulf States, The National Archives, Kew, United Kingdom; "Telegram from the Embassy in France to the Department of State," October 18, 1974, *FRUS*, Vol. XXXVII, Doc. 10, https://history.state.gov/historicaldocuments/frus1969-76v37/d10.

these reasons, the British and French governments saw Kissinger and Simon as standing in the way of a very necessary reconciliation between the capitalist West, OPEC, and the Global South.

Laroisière's ominous predictions however proved to be accurate: the Ford administration took every possible step to strangle the IMF Oil Facility at its birth. First, the United States and West Germany jointly opposed increasing OPEC's voting power in the IMF—a move that could have encouraged OPEC to commit to the Oil Facility—on the grounds that this would shrink their relative share and influence within the Fund.[106] Then, when it became clear that the IMF Oil Facility would reach its annual lending limit after just four months, Healey and Witteveen advocated for expanding the facility to $30 billion—the sum which the British Chancellor proposed at Camp David. Healey also traveled to Saudi Arabia to extoll the merits of the Oil Facility to Prince Fahd, but U.S. diplomats advised their Saudi counterparts to focus on U.S. recycling proposals—not one as "inadequately formulated" as the IMF's.[107] In the end, the Ford administration frustrated Healey's every move: Simon would not support any figure above $5 billion for the IMF Oil Facility, and in January 1975, he used his sway over the IMF board to cap the facility at that meager level.[108] Considering that OPEC's surpluses for 1975 were predicted to reach $115 billion, this effectively would keep over 95% of the world's petrodollars outside the

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[106] "Record of Meeting with French Officials at the Quai d'Orsay on 24 October 1974."

[107] Embassy in London to State Department, "Chancellor Healey's Visit to Saudi Arabia," Telegram 15430, November 25, 1974, 1974LONDON15430, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration; Embassy in London to State Department, "Saudi Ambassador Request for Views on Healey Witteveen Mach II Proposal," Telegram 15811, December 4, 1974, 1974LONDON15811, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration; State Department to Embassy in London and Embassy in Jeddah, "U.S. Views on Healey Witteveen Mark II Proposal," Telegram 268114, December 6, 1974, 1974STATE268114, Central Foreign Policy Files, 1973-79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration.

[108] "Memorandum of Conversation," Doc. 9; Dietrich, *Oil Revolution*, 286–87.

Fund.[109] Thus, despite being used by industrialized countries such as Italy, the IMF Oil Facility was relegated to the marginal role of supporting monetary adjustments for developing countries such as India and the Philippines.[110] And, given that the IMF sought to use the Oil Facility to replace the U.S. dollar by the SDR as the world's international reserve asset, Simon's sabotage of the IMF Oil Facility also served to protect the dollar's global monetary primacy.

Ironically, however, Simon did use the Oil Facility—not as a viable means for petrodollar recycling, but to force financial liberalization upon its borrowers. The United States had abolished its last capital controls in January 1974, removing limits on the size of short-term deposits in New York and making it easier for U.S. banks to borrow and lend internationally. Simon credited this for the marked increase in flows of petrodollars into the United States, which enabled a yearly increase in U.S. loans to foreigners by over $15 billion in 1974. In turn, Simon pressured the IMF to make it mandatory for countries to relax their own capital controls as a prerequisite for borrowing from the Oil Facility—removing barriers for these developing countries to engage in private cross-border financial transactions. Hence, Simon effectively restricted the amount of international public lending available to the Global South, all while making it easier for them to borrow from private capital markets—and especially from Wall Street. Instead of serving as a

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[109] OECD Secretariat, "The Medium Term Balance of Payments Implications of the Oil Situation"; Pierre Terzian, "OPEC Surpluses: Myth and Reality," *MERIP Reports*, no. 57 (1977): 21–24, https://doi.org/10.2307/3011562. It must be noted that these predictions did not come true, as OPEC's collective current account surpluses for 1975 actually ranged between $40 and $50 billion. This decrease from 1974 levels can be attributed to a disproportionate increase in spending by a number of OPEC states, some of which even experienced deficits in 1975. But, even with these realized surplus levels, around 90% of OPEC's surpluses remained outside the IMF Oil Facility.

[110] Robichek, "The Payments Impact of the Oil Crisis: The Case of Latin America"; Ian McDonald, "Fund Activity: Oil Facility Purchases," *Finance and Development: A Publication of the International Monetary Fund and the World Bank Group* 12, no. 4 (December 1975): 3.

means for public credit on concessionary terms, the IMF Oil Facility ended up accelerating the privatization of global sovereign debt on commercial terms.[111]

Instead, the Ford administration would take a radically different approach to turn the petrodollar crisis into a major opportunity for America—ironically, not through the market or multilateral cooperation, but by leveraging its bilateral ties with Saudi Arabia. If Europeans—and especially the French—had preempted the United States in drawing bilateral oil trade agreements with Saudi Arabia during the embargo, the turn had come for United States to bypass multilateral institutions and strike its own bilateral petrodollar recycling deal with the Saudi monarchy. After all, Yamani had vowed since 1972 that a U.S.-Saudi preferential oil relationship would have a financial component, and that Saudi Arabia would invest part of its oil profits back in the U.S economy. Now, the unprecedented growth of Saudi revenues made it more urgent for Saudi Arabia to fulfill this promise. During the summer of 1974, Simon and other Treasury officials made several visits to Saudi Arabia to seek a bilateral petrodollar agreement, but the United States had to propose a scheme that would satisfy both Saudi Arabia's need for financial security and liquidity, and Western financial markets' need for longer-term investments. After all, with the saturation of Eurodollar markets—where banks had begun to reject short-term deposits—OPEC countries saw growing risks in investing their funds in private banks, which raised their appetite for U.S. Treasury securities.[112] In July 1974, Simon assured King Faisal that the U.S. Treasury was in the unique position of being able to handle large sums of Saudi petrodollars without disrupting world financial

[111] "Statement by Secretary of the Treasury William E. Simon," in *Recycling of Petrodollars: Hearing before the Permanent Subcommittee on Investigations of the Committee on Government Operations*, United States Senate, Ninety-Third Congress, Second Session, Pursuant to Section 4, Senate Resolution 269, 93d Congress, October 16, 1974 (Washington, D.C.: U.S. Govt. Print. Off., 1974), 69–75; Dietrich, *Oil Revolution*, 286–89.

[112] "Statement of Hon. Jack F. Bennett, Under Secretary of the Treasury," in *International Petrodollar Crisis: Hearings before the Subcommittee on International Finance of the Committee on Banking and Currency*, House of Representatives, Ninety-Third Congress, Second Session. July 9 and August 13, 1974 (Washington, D.C.: U.S. Govt. Print. Off., 1974), 6–12.

markets—a suggestion that aroused the monarch's interest.[113] Indeed, U.S. Treasury bonds were some of the world's safest and most liquid investments, and they had a relatively competitive real interest yield—which made them attractive to SAMA.[114] The U.S. proposal was quite simple: Saudi Arabia would recycle petrodollars by purchasing U.S. government bonds—not openly in the market, but secretly in direct government-to-government special treasury issues. The United States thus sought to bring about a massive diversion of Saudi petrodollars from Eurodollar markets into the United States—generating unease among European governments.[115]

However, to the Ford administration's dismay, for unclear reasons, the Saudis seemed to be "dragging their feet" on this new financial relationship, on which they might be having second thoughts.[116] In September 1974, the U.S. Embassy in Saudi Arabia finally learned that King Faisal and Prince Fahd were held back by fears that Saudi money held in the U.S. Treasury would be repurposed as aid to Israel—especially after Israeli Prime Minister Yitzhak Rabin announced that he would travel to Washington to demand "five times the amount of US help Israel got before the war." The monarch could not bear the potential reputational damage to his standing in the Arab world if his neighbors and his people concluded that Saudi Arabia "was simply financing Israel's

[113] Department of State to Embassy in Rome, "Saudis May Buy U.S. Treasuries Soon," Telegram 158507, July 22, 1974, 1974STATE158507, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration.

[114] Banafe and Macleod, *The Saudi Arabian Monetary Agency, 1952-2016*, 51–54.

[115] "Anglo/French Talks on the Middle East Held at the FCO on 27 June 1974," June 27, 1974, FCO 8/2156, Anglo-French Talks on Gulf States, The National Archives, Kew, United Kingdom; Embassy in Jeddah to State Department, "Saudi Purchase of Special Treasury Issues Still under Advisement," Telegram 04645, August 11, 1974, 1974JIDDA04645, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration.

[116] Embassy in Jeddah to State Department, "Travel of Assistant Secretary of Treasury Parsky to Saudi Arabia," Telegram 05025, August 31, 1974, 1974JIDDA05025, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration; State Department to Embassy in Jeddah, "Saudi Views on the 'New Relationship,'" Telegram 193337, September 4, 1974, 1974STATE193337, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration.

arms purchases from the US."[117] With repeated assurances to take all possible measures to prevent any such conflict of interest, the U.S. Treasury insisted that the best solution for Saudi Arabia's petrodollar problem was for SAMA to acquire American government bonds through direct issues. King Faisal finally agreed on September 7, 1974, to plan for the purchase of $3 billion in U.S. Treasury bonds—which he demanded had to be kept strictly confidential. He also hoped that this agreement would be another step towards building peace in the Middle East, and that it would serve to curb Israel's "intransigent and expansionist ambitions," echoing Kissinger's qualms about the geopolitical implications of these new financial ties.[118] Nevertheless, the deal between SAMA and the U.S. Treasury proceeded—and with it, the budding special relationship between the United States and Saudi Arabia reached an unprecedented level of interdependence that went far beyond matters of oil trade and international security.

But the deal was not free from scandals—or from foreign competition. Just a couple of days after Faisal's green light, Voice of America leaked Saudi Arabia's plans to purchase U.S. special treasury issues—a matter that Faisal had specifically requested to keep strictly confidential. Fearing that this would reverse months of negotiations, the U.S. government dismissed the story as nothing but "stray rumors"—which, for the U.S. Embassy in Jeddah, could have "go[ne] down as one of the most expensive bits of gossip in U.S. history."[119] And this was not the only leak to appear: just a few days later, Japanese newspaper *Nihon Keizai Shinbun* revealed that the Japanese government was also striking a deal with Saudi Arabia to meet its balance of payments and foreign

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[117] Embassy in Jeddah to State Department, "King Faisal's View of Purchase of Treasury Instruments," Telegram 05170, September 7, 1974, 1974JIDDA05170, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration.

[118] Embassy in Jeddah to State Department.

[119] Embassy in Jeddah to State Department, "VOA Remarks on Saudi Purchase of Treasury Issues," Telegram 05196, September 9, 1974, 1974JIDDA05196, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration.

exchange needs—acquiring $1 bn in dollar deposits in a special foreign exchange account at the Japanese Ministry of Finance. With a 5-year maturity and a 10% interest yield, these would then be redeposited in Japanese private banks. The Japanese government hoped that this inflow of Saudi capital would positively impact Japan's balance of payments, and alleviate foreign exchange pressures on its banks, which would otherwise have to acquire more dollars in the U.S or Europe.[120] Indeed, in a pattern that echoed the earlier scramble for OPEC's oil, industrialized countries were now competing to strike bilateral deals to recycle Arab petrodollars.[121] And in yet another familiar pattern, other Gulf states such as Kuwait and Abu Dhabi also began signaling their interest in acquiring foreign government bonds in formal state-to-state bilateral arrangements.[122]

In this context of global competition for Arab petrodollar deposits, the Saudi Arabian Monetary Authority finally came through with its acquisition of longer-term treasury issues through the Federal Reserve Bank of New York in December 1974—secretly and directly instead of through the competitive auctions in which every other actor had to participate.[123] SAMA agreed to establish a confidential relationship with the Fed for treasury borrowing operations, and these certificates could then be redeposited in New York banks on its behalf. SAMA also retained options to purchase short-term certificates and special treasury issues—also confidentially—and

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[120] Embassy in Tokyo to State Department, "GOJ Acquiring Petrodollar Deposits," Telegram 12037, September 19, 1974, 1974TOKYO12037, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration.

[121] The Saudi-Japanese deal would be slower to materialize, and would not be concluded until 1976—emulating that of with the U.S. Treasury. SAMA would also hold certain amount of Yen-denominated government assets in line with a strategy of currency diversification (7% by 1981). Banafe and Macleod, *The Saudi Arabian Monetary Agency, 1952-2016*, 54–58.

[122] Embassy in Abu Dhabi to State Department, "Possible Abu Dhabi Interest in US Treasury Bonds," Telegram 021340, September 30, 1974, 1974ABUDH01340, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration; Embassy in Tokyo to State Department, "GOJ Acquiring Petrodollar Deposits," September 19, 1974.

[123] State Department to Embassy in Jeddah, "US Treasury Issues," Telegram 265655, December 3, 1974, 1974STATE265655, Central Foreign Policy Files, 1973- 79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration.

it also acquired Fannie Mae and other U.S. government securities through both the Federal Reserve and New York private banks. [124] Given Saudi Arabia's degree of investment in American financial assets, the kingdom also took moves to prop up the U.S. dollar: on December 11th, 1974, when British Chancellor Healey was visiting the country, Aramco made the surprise announcement that it would no longer accept oil payments in pound sterling, and would exclusively accept the U.S. dollar. Given that 25% of tax and royalty payments to Saudi Arabia had been made in sterling, this came as a monetary shock for Britain: it drove the pound to historic lows—forcing the Bank of England spend $250 million to support it—and dealt a final blow to the pound's prestige as a reserve currency. Conversely, the U.S. dollar marginally appreciated, with its primacy as the world's preeminent reserve asset further enhanced.[125]

By January 1975, the Saudi Arabian Monetary Authority's financial strategy and its executive teams had both been transformed. SAMA began receiving direct advice from the U.S. Federal Reserve and the Bank of England, and the agency's first Saudi-born governor was surrounded by a team of three American and two British advisors who would sit on its board—hailing from two financial advisory firms: Wall Street-based White Weld, and Baring Brothers from the City of London. SAMA also switched from primarily relying on the Eurodollar market to holding almost half of its assets in government securities—the overwhelming majority of which

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[124] State Department to Embassy in Jeddah; Embassy in Jeddah to State Department, "SAMA Agrees to Purchase Treasury Issues," Telegram 07310, December 12, 1974, 1974JIDDA07310, Central Foreign Policy Files, 1973-79/Electronic Telegrams, RG 59: General Records of the Department of State, U.S. National Archives and Records Administration.

[125] This followed decisions by other Gulf states such as Kuwait to abandon sterling payments, especially given how the United Kingdom was accumulating trade deficits of $1 billion a month while inflation soared to 17%. By December 1974, the pound had thus depreciated by a total of 21% versus its value in December 1971. Embassy in Jeddah to State Department, "SAMA Agrees to Purchase Treasury Issues," December 12, 1974; Clyde Farnsworth, "Reported Rebuff by Arabs Drives Pound to a Low," *New York Times*, 1974; Terry Robards, "Britain's Pound Slumps Further," *New York Times*, 1974; Palmer John, "Oil Crisis Hits Sterling," *The Guardian (1959-2003)*, December 11, 1974; Palmer John, "Gloom in the Market as Saudis Spurn Sterling," *The Guardian (1959-2003)*, December 12, 1974.

were U.S. government bonds, complemented by European and Japanese bonds.[126] Hence, instead of dealing with commercial banks, SAMA emphasized bilateral government-to-government deals, and especially its new special relationship with the United States. As to Saudi Arabia's remaining petrodollar holdings, almost half were placed in American private banks—either directly in Wall Street, or in their European branches.[127]

Saudi Arabia thus took a major stake in protecting the U.S. dollar's role as the world's reserve currency—which it did by holding over 80% of its foreign assets U.S. dollars and by continuing to price its oil exclusively in dollars despite OPEC's short-lived efforts to use SDRs.[128] This, in turn, sustained the United States' "exorbitant privilege" in the international monetary system: unlike other countries, which had to export goods and services to accumulate dollars to pay for foreign oil, the U.S. could just print its own currency—which became even more crucial after the oil price hike. Additionally, the kingdom's investment of its petrodollar reserves in U.S. government securities amounted to a multi-billion loan from Saudi Arabia to the United States: the world's oil-importing countries were incurring trade deficits to purchase oil from Saudi Arabia, which was then pooling these surpluses and transferring them to New York through the purchase of U.S. debt. In this sense, the U.S.-Saudi petrodollar relationship was a means for reasserting America's hegemonic dominance over the international economy and monetary system after it had been seriously questioned. And, paradoxically, despite Ford, Kissinger, and Simon's claims to prioritizing market liberalization and multilateral cooperation, and their alleged rejection of

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[126] Banafe and Macleod, pp. 54-58.

[127] David E Spiro, *The Hidden Hand of American Hegemony*, 60; Banafe and Macleod, *The Saudi Arabian Monetary Agency, 1952-2016*, 54–58.

[128] David E Spiro, *The Hidden Hand of American Hegemony*, 60, 141–42.

unilateral solutions to the oil shock, the most significant petrodollar recycling mechanism was built through secret bilateral institutional arrangements between the United States and Saudi Arabia.[129]

Perhaps surprisingly, the American-Jewish Congress did not object to these deepening ties between the U.S. and Saudi Arabia. In February 1975, its Executive Committee noted that, despite arousing apprehension among American Jews, this new "special relationship" could actually serve Israel's best interests by dissuading Arabs from redeploying the oil weapon. Aware of the United States' need for capital investments to enhance its economic stability, the American-Jewish Congress also noted how petrodollar flows into the U.S. "also create what are in effect counter-hostages; just as the Arabs could threaten to embargo oil, we could threaten to seize their investments (as we did with German-owned companies during World Wars I and II). Thus, the greater the Arabs' investment in our country, the greater our hold over them."[130] Indeed, U.S. financial decisions on Saudi petrodollars were never divorced from geopolitical considerations. And to be sure, this logic was not lost on Kissinger, who, speaking to German Federal Minister Egon Bahr in a preparatory meeting to the Washington Energy Conference back in February 1974, had made an astounding revelation: if Saudi Arabia were to invest its money in the United States, "we could let them invest here and then expropriate their assets. That's really our secret plan."[131] This disingenuous quest for mutual leverage stood at the bedrock of the special relationship between the United States and Saudi Arabia that, with many twists of irony, emerged in full force from the First Oil Shock.

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[129] David E Spiro, 121–26.

[130] American Jewish Congress Executive Committee, "Background Memorandum on Pending Proposals to Deal with the Impact of the Flow of Petrodollars," February 22, 1975, JudBox 13404267, Judaica Collection, Widener Library, Harvard University, Cambridge, MA.

[131] "Memorandum of Conversation: Energy," February 1, 1974, *FRUS*, Vol. XXXVI, Doc. 295.

And it was in this position of dominance that America built new frameworks for international cooperation under the aegis of its leadership. The OECD became a prime locus for the U.S. to exert its influence in a multilateral structure. For instance, upon learning about the OECD's recycling plan, Kissinger decided to establish his trust fund proposal through this organization.[132] This "safety net," which he wished to collectively fund at a staggering $25 billion, could provide OECD countries with petrodollar financing without any of the risks entailed by bilateral recycling.[133] But, despite its superficial adherence to multilateralist ideals, the trust fund would actually serve as a cover for the U.S.-Saudi bilateral relationship, by allowing for a redistribution of Saudi petrodollars from the U.S. Treasury and Wall Street to Europe and Japan—all with American oversight through its veto power and the U.S. Treasury's ability to set conditions for any of these loans.[134] However, the French government rejected this proposal, sensing that an OECD trust fund would only serve as an instrument for the United States to manage and regulate petrodollar flows to industrialized countries. Kissinger lamented how "they obviously prefer being bailed out by OPEC than by the US. Yet in time we shall prevail despite French sabotage."[135] Hence, in December 1974, Ford and Giscard met in the island of Martinique in the French Caribbean, and, in this idyllic setting, both leaders finally agreed on a grand bargain: France would support the U.S. proposal for an OECD trust fund if America acquiesced to engaging in a good-

[132] "Telegram from the Embassy in France to the Department of State."

[133] "Telegram From the Department of State to the Embassy in West Germany," November 13, 1974, *FRUS*, Vol. XXXVII, Doc. 17, https://history.state.gov/historicaldocuments/frus1969-76v37/d17; "Telegram From the Department of State to the Embassies in Japan, the United Kingdom, and France," November 14, 1974, *FRUS*, Vol. XXXVII, Doc. 18, https://history.state.gov/historicaldocuments/frus1969-76v37/d18; "Memorandum of Conversation," December 5, 1974, *FRUS*, Vol. XXXVII, Doc. 22, https://history.state.gov/historicaldocuments/frus1969-76v37/d22; "Memorandum of Conversation," December 9, 1974, *FRUS*, Vol. XXXVII, Doc. 23, https://history.state.gov/historicaldocuments/frus1969-76v37/d23.

[134] David E Spiro, *The Hidden Hand of American Hegemony*, 91–95.

[135] "Memorandum From the President's Deputy Assistant for National Security Affairs (Scowcroft) to President Ford," October 25, 1974, *FRUS*, Vol. XXXVII, Doc. 12, https://history.state.gov/historicaldocuments/frus1969-76v37/d12.

faith dialogue between oil-producing and consuming countries. Despite Kissinger's previously aired fears that such a meeting would only provide a setting for "the West [to] continue its civil war,"[136] Ford acquiesced.[137]

Kissinger thus finally agreed to participate in a consumer-producer dialogue, for which Giscard hosted a preparatory meeting in Paris in April 1975—known as the Conference for International Economic Cooperation (CIEC). For the first time, representatives from the United States, the European Community and Japan met to discuss the Energy Crisis with a group of OPEC states and other developing countries—namely Saudi Arabia, Iran, Algeria, Venezuela, Brazil, India, and Zaire. But the preparatory meeting quickly collapsed, as Algeria—at the helm of the NIEO and the Group of 77—insisted that any Western dialogue with OPEC had to touch upon other non-energy matters, including the prices of raw materials, terms of trade, and development. To Giscard's dismay, the American delegation categorically refused—fearing that such a consumer-producer dialogue would degenerate into another spectacle of Third World recriminations against the West—as had become the norm in the UN General Assembly and UNCTAD. And yet, against all odds, the Western bloc did not crumble. French officials privately recriminated the United States for refusing to compromise with the LDCs, but publicly, the West had made a rare show of unity.[138]

Thereon, the Ford administration faced strong pressure to fulfil its promise to fruitfully engage in a consumer-producer dialogue—not just from France, but also from Saudi Arabia, which

[136] "Memorandum of Conversation," Doc. 23.

[137] "Memorandum of Conversation," December 15, 1974, *FRUS*, Vol. XXXVII, Doc. 24, https://history.state.gov/historicaldocuments/frus1969-76v37/d24.

[138] "Telegram From the Department of State to the Embassy in Saudi Arabia," April 1, 1975, *FRUS*, Vol. XXXVII, Doc. 51, https://history.state.gov/historicaldocuments/frus1969-76v37/d51; "Memorandum of Conversation," April 19, 1975, *FRUS*, Vol. XXXVII, Doc. 55, https://history.state.gov/historicaldocuments/frus1969-76v37/d55.

felt that its position within OPEC was being threatened by America's intransigence.[139] Kissinger made an expressed commitment before the IEA to overcome these impasses and led the way in relaunching the preparatory conference in October 1975, with the compromise of establishing separate commissions to discuss energy, raw materials, development, and financial issues.[140] This was the starting point of years of North-South dialogues—a remarkable but forgotten instance of consultations that tried to reconcile Western capitalism with the demands of the NIEO.[141] And again, the U.S. held its ground not just because of its coordinated positions with Europe and in new institutions such as the IEA, but also because of its special relationship with Saudi Arabia. In fact, at America's behest, Saudi Oil Minister Yamani succeeded in preventing OPEC for undertaking any other major oil price increase: for instance, when Iranian Prime Minister Amir-Abbas Hoveyda pushed for a 35% increase in the posted price of oil during the September 1975 OPEC summit in Vienna, Yamani threatened to increase Saudi oil production to keep prices stable even if this risked undermining OPEC.[142] Not only this, but U.S. diplomats also mobilized the consumer-producer summit to press OPEC to stabilize prices—claiming that any good-faith dialogue presupposed confidence-building measures such as refraining from another price hike.[143]

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[139] "Memorandum of Conversation," Doc. 55; "Memorandum of Conversation," April 26, 1975, *FRUS*, Vol. XXXVII, Doc. 56, https://history.state.gov/historicaldocuments/frus1969-76v37/d56.

[140] "Paper Prepared in the Department of State," undated, *FRUS*, Vol. XXXVII, Doc. 60, https://history.state.gov/historicaldocuments/frus1969-76v37/d60; "Telegram From Secretary of State Kissinger to the Embassy in Saudi Arabia," May 28, 1975, *FRUS*, Vol. XXXVII, Doc. 64, https://history.state.gov/historicaldocuments/frus1969-76v37/d64; "Telegram From the Department of State to the Embassy in France," June 15, 1975, *FRUS*, Vol. XXXVII, Doc. 66, https://history.state.gov/historicaldocuments/frus1969-76v37/d66; "Telegram From the Department of State to the Embassy in France," July 24, 1975, *FRUS*, Vol. XXXVII, Doc. 71, https://history.state.gov/historicaldocuments/frus1969-76v37/d71.

[141] For a comprehensive analysis of the North-South dialogue, see Giuliano Garavini, *The Rise and Fall of OPEC in the Twentieth Century*, First edition. (Oxford: University Press, 2019), 254–300.

[142] "Telegram From the Embassy in Saudi Arabia to the Department of State," August 28 1975, *FRUS*, Vol. XXXVII, Doc. 79, https://history.state.gov/historicaldocuments/frus1969-76v37/79.

[143] "Telegram From the Department of State to the Embassy in Iran," September 9 1975, *FRUS*, Vol. XXXVII, Doc. 80, https://history.state.gov/historicaldocuments/frus1969-76v37/80.

The United States had clearly come a long way since October 1973, and, with the combination of OPEC oil price freezes and high global inflation, the world actually experienced a fall in real oil prices that alleviated monetary pressures on oil-importing nations.

But perhaps the most salient moment of Western cooperation was the Rambouillet Summit—the first meeting of the G6. During the summer of 1975, Giscard and Schmidt approached Ford with the suggestion that more American coordination was needed among the world's leading industrialized countries to overcome the crisis. Ironically, it was Giscard, whose government had previously condemned the idea of setting up a *club des riches*, who convened a summit of the Big Five plus Italy in the Chateau de Rambouillet in the outskirts of Paris on November 15, 1975. At that point, given the strengthening position of the United States, and the economic radicalization of the Third World, even the French Foreign Ministry privately acknowledged that it would be in France's best interest to follow America's leadership. Thus, while the Rambouillet summit was not particularly conclusive in terms of official policy recommendations, it signaled Europe and Japan's growing sense that navigating the challenges of global interdependence required America's direction—thus allowing the capitalist West to show a united face to the world after years of fracture and discord. [144] Perhaps more remarkably, a meeting of treasury officials on the summit's sidelines proved to be even more consequential than that of the heads of state: France finally accepted the reality of the *de facto* new international monetary order of floating currencies without a gold standard. Then, meeting in Jamaica in January 1976,

[144] Daniel J. Sargent, *A Superpower Transformed: The Remaking of American Foreign Relations in the 1970s* (Oxford: University Press, 2015), 190–94; Duccio Basosi, *Finanza & petrolio: gli Stati Uniti, l'oro nero e l'economia internazionale*, Secreta (Venezia: Studio LT2, 2012), 148–52; "Memorandum of Conversation," November 15, 1975, *Foreign Relations of the United States: Foreign Economic Policy, 1973-1976*, Vol. XXXI, Doc. 122; "Memorandum of Conversation," November 16, 1975, *FRUS*, Vol. XXXI, Doc. 123; "Memorandum of Conversation," November 16, 1975, *FRUS*, Vol. XXXI, Doc. 124; "Memorandum of Conversation," November 17, 1975, *FRUS*, Vol. XXXI, Doc. 125.

the IMF Interim Committee was able to agree upon the first major overhaul of the international monetary system since Bretton Woods. Despite agreements to increase the use of SDRs as reserve assets, to continue holding gold reserves, and to enhance the IMF's surveillance power over countries' economic policies, the reformed monetary order reasserted America's primacy with the official consecration of a free-floating U.S. dollar standard. The United States thus maintained its veto power and stature within the IMF, as well as its "exorbitant privilege" in the international monetary system.[145]

IV. OPEC to the Rescue? The Promise and Limits of South-South Solidarity

These new spectacles of Western unity stood in contrast to the fate of South-South solidarity. While proposals to redistribute OPEC petrodollars to the Third World abounded during the First Oil Shock, each individual OPEC state sought to leverage the oil boom to increase its own economic development, regional influence, and soft power. For instance, when Algeria suggested in the CIEC that all of OPEC countries' development aid to the LDCs should be exclusively channeled through a dedicated OPEC fund, Saudi Arabia refused—allowing instead each country to deliver aid through its own preferred conduits.[146] Hence, the Saudi monarchy used the Islamic Development Bank—established in Jeddah in December 1973, and where it held a plurality of shares—as one of its preferred means for disbursing development aid through interest-free Islamic finance in accordance to shariah law, which enhanced the Saudi regime's drive to lead the Muslim world not just financially, but also politically, ideologically, and spiritually.[147] Along

[145] Sargent, *A Superpower Transformed*, 190–94; Basosi, *Finanza & petrolio*, 148–52.

[146] Basosi, *Finanza & petrolio*, 151; Giuliano Garavini, *Dopo gli imperi: integrazione europea nello scontro Nord-Sud*, 1. ed., Quaderni di storia (Firenze: Le Monnier, 2009), 232.

[147] The Islamic Development Bank (IDB) fit within a broader Saudi strategy promoted by King Faisal of building a new Muslim internationalism during the 1970s, which included co-hosting the Second Islamic Summit in Lahore in 1974, organizing a voting block of Muslim countries in the U.N. General Assembly, and creating the Organization

similar lines, the Venezuelan government also wielded its petrodollars to enhance its regional standing with the establishment of a $500-million trust fund within the Inter-American Development Bank to promote development projects in Latin America and the Caribbean.[148]

As a result, OPEC states held an uncoordinated approach towards financially supporting the Third World. For instance, Saudi Arabia, Iran, Kuwait, and Venezuela stood as the largest contributors to the IMF Oil Facility—but Algeria, Libya, Iraq, and Indonesia refused to join in.[149] Indeed, there was a mismatch between OPEC countries' rhetoric on South-South solidarity and their actual disbursements of development aid. Such was the case of Algeria, which despite standing at the helm of the NIEO and the Group of 77, had such ambitious industrialization plans that it was projected to finish 1975 with a $2 billion trade deficit.[150] It only managed to provide $42 million in aid to the developing world within that year—that is, less than 0.5% of OPEC's collective aid.[151] And finally, some other programs took years to concretize: for instance, despite starting its operations in 1975, the Islamic Development Bank had only approved a single loan by 1976—for a hydroelectric project in Cameroon.[152] Similarly, the Arab Monetary Fund, which was

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of the Islamic Conference. Also, Saudi Arabia held a preponderant influence within the IDB: with 27% of its total subscriptions, it had the largest share of voting power among its members, and, in 1976, almost all of the bank's cash funds were deposited with the Saudi Arabian Monetary Agency, which acted as the IDB's trustee and depository. See Islamic Development Bank, *Annual Report 1976 - Islamic Development Bank* (Jeddah: Islamic Development Bank, 1976); Cemil Aydin, *The Idea of the Muslim World: A Global Intellectual History* (Cambridge, Massachusetts: Harvard University Press, 2017), 173–226.

[148] Banco Interamericano de Desarrollo, *Informe Anual 1975 - Banco Interamericano de Desarrollo* (Washington, D.C.: Interamerican Development Bank, 1976).

[149] "Fund Activity: Oil Facility Winds up after Lending Nearly SDR 7 Billion in Two Years," *Finance and Development: A Publication of the International Monetary Fund and the World Bank Group* 13, no. 2 (June 1976): 6, IMF eLibrary.

[150] "Memorandum From Robert Hormats of the National Security Council Staff to Secretary of State Kissinger," March 4 1975, *FRUS*, Vol. XXXVII, Doc. 47, https://history.state.gov/historicaldocuments/frus1969-76v37/d47.

[151] OPEC Special Fund and United Nations Conference on Trade and Development, *The UNCTAD Report on OPEC Aid: A Summary* (Vienna: OPEC Fund for International Development, 1979), 19.

[152] Islamic Development Bank, *Annual Report 1976 - Islamic Development Bank*.

established in Abu Dhabi in 1976 to help correct balance of payments disequilibria in the Arab world, had only made two loan disbursements by December 1978—to Egypt and Sudan.[153]

This is not to say that OPEC countries' aid initiatives were ineffective or unlaudable—on the contrary, there were remarkable efforts to uphold Third World solidarity and fill the gap left by stagnating or declining levels of OECD aid. Official aid flows from the Gulf's Arab countries skyrocketed after the oil shock, rising from $1.3 billion in 1973 to $3.8 billion in 1974, before averaging $6 billion a year for the remainder of the decade. By 1976, official aid amounted to 2.5% of OPEC's GNP, in contrast to only 0.4% for the OECD. And on a per capita basis, OPEC countries provided 32 times more aid to the Third World than the OECD.[154] Saudi Arabia might have only disbursed $2 billion in development loans out of its $40 bn in foreign exchange reserves for 1975, but this was enough for it to rank as the world's second largest aid donor after the United States.[155] And on a per capita basis, the place of honor would go to Kuwait: while Arab oil-producing countries averaged $800 per capita in development aid during the first oil shock, this small Gulf state delivered twice as much at $1,600 per capita.[156] Kuwait thus overperformed in a variety of respects: unlike Saudi Arabia with its heavy reliance of U.S. government bonds and its dependence on American and British advisors, Kuwait succeeded in autonomously building the most diversified and lucrative petrodollar investment portfolio among OPEC states, serving as a model for future sovereign wealth funds. In contrast to Saudi Arabia, Kuwait only held 5% of its assets in U.S. government bonds, and it proceeded to invest in a variety of international financial

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[153] Arab Monetary Fund, *Annual Report 1978 - Arab Monetary Fund* (Abu-Dhabi: Arab Monetary Fund, 1979), UNCTAD ARR 40 1842 TDO 440, Arab Monetary Fund, United Nations Archives, Geneva, Switzerland.

[154] Zuhayr Mikdashi, *OPEC States and Third World Solidarity* (Vienna, Austria: OPEC Fund for International Development, 1980), 14–17.

[155] OPEC Special Fund and United Nations Conference on Trade and Development, *The UNCTAD Report on OPEC Aid*, 10, 19; Banafe and Macleod, *The Saudi Arabian Monetary Agency, 1952-2016*, 68.

[156] Mikdashi, *OPEC States and Third World Solidarity*, 16.

securities, equity investments, and real estate, including the notable acquisition of Kiawah Island—a renowned luxury beach and golf resort in South Carolina.[157] But this quest for profits did not stand in the way of Kuwait becoming a major aid donor: it sported the oldest official foreign aid agency in the Gulf, the Kuwait Fund for Arab Economic Development (KFAED), established in 1961 right after the state's independence to share the country's oil wealth with the Arab world.[158] The KFAED had already turned Kuwait into the largest OPEC donor state before 1973, but the Oil Shock provided it with the opportunity to leverage its long-standing experience in development financing to expand the purview of its operations to the rest of the Global South. The Kuwaiti Fund thus grew from providing 7 new loans exclusively to Arab countries in 1974-1975, to producing 34 new loans in 1975-1976—including 14 to non-Arab countries ranging from Bangladesh, India, Malaysia, and Thailand to Rwanda, Tanzania, Uganda, and Guinea.[159]

Moreover, OPEC countries also came together in some significant initiatives to soften the impact of the oil shock on the world's poorest countries—especially in Africa. OPEC established its own Fund for International Development in 1976 to financially support the world's least developed countries that had been most severely affected by the Oil Shock—through both project loans and balance of payments support. Again, operations took time to ramp up—with only 5 loan disbursements being made during the first year. Five years later, however, the OPEC Fund had

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[157] David E Spiro, *The Hidden Hand of American Hegemony*, 60.

[158] I credit my student Ethan Harradine for having composed the first history of the Kuwait Fund for Arab Economic Development in his Senior Thesis, which I had the pleasure and honor of supervising. See Ethan Harradine, "The Price of Independence: State Legitimation, Arab Nationalism, and the Financial Ascendancy of Kuwait, 1960-1975" (Unpublished, 2021).

[159] Kuwait Fund for Arab Economic Development, *Annual Report 1974/1975 - Kuwait Fund for Arab Economic Development* (Kuwait City, Kuwait: Kuwait Fund for Arab Economic Development, 1975), Gulf Collection, Arab World Documentation Center, University of Exeter, Exeter, United Kingdom; Kuwait Fund for Arab Economic Development, *Annual Report 1975/1976 - Kuwait Fund for Arab Economic Development* (Kuwait City, Kuwait: Kuwait Fund for Arab Economic Development, 1976), Gulf Collection, Arab World Documentation Center, University of Exeter, Exeter, United Kingdom.

provided a total of 266 loans to 79 beneficiaries—most of them in Africa. To be sure, these loans only amounted to a total of $1.3 billion between 1976 and 1981, but given the OPEC Fund's focus on the world's poorest countries and its emphasis on just two main issues—energy and food—smaller loans could have a greater relative impact on their recipients' economies and balance of payments.[160] Moreover, the OPEC Fund also innovated in providing financial and technical support to other multilateral aid organizations such as the United Nations Development Project and UNICEF, and it also took an active role in establishing new agencies within the U.N. such as the International Fund for Agricultural Development. Finally, the OPEC Fund stood as a stern advocate for the creation of a Common Fund for Commodities in line with the demands of the NIEO—thus becoming an active participant in the heated North-South dialogues.[161]

But there was another organization that more readily embodied the ties of Afro-Arab solidarity that had deepened since the Arab oil embargo on Southern Africa: The Arab Bank for Economic Cooperation in Africa, commonly known through its French acronym BADEA. Born out of the November 1973 Arab League Summit in Algiers—alongside the embargo on Portugal, Rhodesia and South Africa—BADEA was finally established in Khartoum in January 1975 as a token of gratitude for Sub-Saharan Africa's collective support for the Palestinian cause during the October 1973 war and its subsequent endorsement of the OPEC oil price hike at the U.N. General Assembly. Counting Libya among its largest contributors—second only to Saudi Arabia—BADEA could also serve as an effective public relations tool for some of the Arab world's more

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[160] Ibrahim F. I. Shihata, *The OPEC Fund for International Development: The First Five Years: Oct. 1976-Oct. 1981* (Vienna, Austria: The OPEC Fund for International Development, 1981); Ibrahim F. I. Shihata and Said Aissi, "The OPEC Fund and Africa - A Geographical Perspective," in *The OPEC Fund for International Development: The Formative Years* (London : New York: Croom Helm ; St. Martin's Press, 1983), 72–96.

[161] Shihata, *The OPEC Fund for International Development*; Ibrahim F. I. Shihata and Traute Wohlers-Scharf, "Innovative Forms of Cooperation: The OPEC Fund's Approach," in *The OPEC Fund for International Development: The Formative Years* (London : New York: Croom Helm ; St. Martin's Press, 1983), 72–96.

militant states to follow through on their discourse of Afro-Arab anticolonial solidarity. Hence, BADEA worked with other multilateral aid organizations to provide Sub-Saharan African countries with smaller loans—each capped at $10 million—to finance highly visible infrastructure, agricultural, and industrial projects such as the construction of the Port of Douala in Cameroon, the Holle-Dolisie railway in the Congo, the Selingue dam in Mali, the Kitwe highway in Zambia, and a power generation station in Sierra Leone.[162]

However, with both the OECD and OPEC focusing on providing aid to the world's most impoverished states, the First Oil Shock left the better-off developing countries as some of its greater victims—a group known as the newly industrializing countries (NICs). After the oil price hike, non-Arab middle-income countries such as Brazil, Turkey, and South Korea—which had historically been foreign aid recipients—found themselves cut off from OPEC financing right when U.S. aid was redirected towards the world's least developed countries. As a result, they were pressured into taking on growing amounts of debt from international private banks on profit-driven commercial terms. By 1978, Brazil and Mexico held almost 40% of all the publicly guaranteed debt from commercial banks to developing countries.[163] And, ironically, OPEC countries also grew to become some of the developing world's largest debtors: despite their unprecedented oil bonanza, Algeria and Venezuela ended up having to borrow recycled petrodollars from international capital markets to finance their own industrialization plans; together, they accounted for almost 15% of all commercial debt to LDCs in 1978.[164] Hence, after the oil shock, rapidly

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[162] Arab Bank for Economic Development in Africa, *التقرير السنوي ١٩٧٥ - المصرف العربي للتنمية الاقتصادية في افريقيا [Annual Report 1975 - The Arab Bank for Economic Development in Africa]* (London: Wartmoughs Limited, 1976); Arab Bank for Economic Development in Africa, *التقرير السنوي ١٩٧٦ - المصرف العربي للتنمية الاقتصادية في افريقيا [Annual Report 1976 - The Arab Bank for Economic Development in Africa]* (London: Wartmoughs Limited, 1977).

[163] David E Spiro, *The Hidden Hand of American Hegemony*, 130.

[164] David E Spiro, 130.

industrializing developing countries experienced exploding rates of foreign borrowing—the largest increases of which went to Brazil, Mexico, South Korea, and Venezuela—which was overwhelmingly financed through international private capital. This produced a growing rift within the developing world, which, despite OPEC countries' aid, continued experiencing worsening trade deficit between 1973 and 1981: while most African and some Asian countries financed their deficits with official aid, Latin America's leading economies slid into spiraling petrodollar debt traps, collectively owing over $100 billion to international private banks in 1982. The Latin American Debt Crisis of the 1980s—and the continent's so called "lost decade," loomed on the horizon.[165]

Conclusion:

The petrodollar boom of the 1970s had a series of contradictory effects on the world order. This initial moment of triumph for the developing world certainly produced unprecedented wealth for Arab monarchs and sheikhs, but it rapidly pushed the Global South into mounting economic troubles, which climaxed with the fiscal collapse of Mexico and other Latin American countries in the early 1980s. Historians have duly noted the tragic nature of OPEC's pyrrhic victory: despite the high hopes for the New International Economic Order and the promise of OPEC financial assistance, the First Oil Shock wrecked developing economies while inadvertently serving for the United States to reassert its global dominance over an increasingly interdependent globalizing world.[166] Instead of the radical redistribution of wealth between North and South that the oil price hike had augured, the world witnessed the ascendancy of free-market-oriented *laissez-faire*

[165] David E Spiro, 68–75.

[166] Dietrich, *Oil Revolution*, 263–317.

economic doctrines—a process that is often referred to as the rise of neoliberalism. The end-result was far different from what any OPEC leader may have foreseen in October 1973: as tens of billions of petrodollars flowed into world capital markets, they fueled the rapid expansion of banking and private finance as a key driver of economic growth within the West—at levels not seen since the Great Depression. What ensued was a rapid global expansion of private banking credits—resulting in spiraling debt for Latin American countries and even OPEC states, all in an increasingly deregulated global financial environment.[167]

However, what this generally agreed-upon story has missed is the role of states, contingency, and decentralized policy decisions in bringing about this "neoliberal turn." Far from the free market, or even global financial institutions, the most significant engine of petrodollar recycling was the special relationship between the United States and Saudi Arabia—and, more specifically, the secret recycling arrangements between the Federal Reserve Bank of New York and the Saudi Arabian Monetary Agency. If market liberalization and the rise of the financial sector are some of the hallmarks of neoliberalism, these visible processes hid the underlying force of secret diplomacy and state-to-state institutional arrangements in channeling the world's largest petrodollar reserves to the American economy—and specially to Wall Street.

And this was far from a linear or preordained process. On the contrary, America's institutional management of Saudi petrodollar flows was hotly contested at a variety of levels and geographies. From friends like Britain and to foes like Libya, from the global elites of the OECD

[167] For some historians' perspectives on the rise of finance during the 1970s, see: Judith Stein, *Pivotal Decade: How the United States Traded Factories for Finance in the Seventies* (New Haven, [Connecticut] ; London, [England]: Yale University Press, 2010); C. Edoardo Altamura, "A New Dawn for European Banking: The Euromarket, the Oil Crisis and the Rise of International Banking," *Zeitschrift Für Unternehmensgeschichte* 60, no. 1 (2015): 29–51, https://doi.org/10.1515/zug-2015-0103; Vanessa Ogle, "Archipelago Capitalism: Tax Havens, Offshore Money, and the State, 1950s–1970s," *The American Historical Review* 122, no. 5 (2017): 1431–58, https://doi.org/10.1093/ahr/122.5.1431; Quinn Slobodian, "World Maps for the Debt Paradigm: Risk Ranking the Poorer Nations in the 1970s," *Critical Historical Studies* 8, no. 1 (2021): 1–22, https://doi.org/10.1086/713524.

to the masses of the Group of 77, among Jews and Arabs, and in hallways of global power such as the IMF, a multitude of actors proposed alternative schemes to distribute and manage OPEC's growing piles of petrodollars—some more equitable than others. And yet, in an improvised series of twists and turns, and with mutual suspicions, doubts, recriminations, and last-minute hesitations, the United States and Saudi Arabia succeeded in turning a moment of global crisis into a mutually beneficial opportunity—shaped by energy, monetary, financial, and geopolitical calculations. This new special relationship thus allowed for a resolution of the First Oil Shock on America and Saudi Arabia's terms—with the U.S. dollar enshrined at the core of a new post-Bretton Woods monetary system, and Wall Street as the central nexus of an increasingly financialized and interdependent global economy. The Energy Crisis thus cemented new ties between oil and finance, which stood as cornerstones of renewed American power in an era of globalization.

Conclusion

In 1978, revolutionary winds began to threaten the Iranian monarchy. In December, as the Shah's regime cracked, and Iran's oil exports ceased. By February 1979, Mohammad Reza Shah Pahlavi had left, and a new anti-American, religiously fundamentalist Islamic regime led by Grand Ayatollah Ruhollah Khomeini began to consolidate power. Panic ensued, and oil prices once again rose from $13 to $40 dollars a barrel. However, this was not driven by any OPEC decision or oil sanctions, but by the West's own fears of oil scarcity—reliving the trauma of the Oil Shock. While Iran was the world's second largest oil exporter, OPEC states—led by Saudi Arabia—increased production to recoup the loss of Iranian oil supplies. The world only experienced a shortage of 4 to 5%, but the "market" brought prices up by 150%. In the world of the petrodollar economy and deregulated finance, a new profession had found its place in the banking system: that of the "energy trader." Dreading a repeat of 1973-1974, these traders rushed to secure oil supplies in the spot market, artificially inflating demand. The oil shortage thus grew to 10%, and oil-importing countries again filled OPEC's coffers with generous petrodollar rents. To paraphrase Karl Marx, history repeated itself, first as tragedy, then as farce.[1]

And yet, if the First Oil Shock had already pushed middle-income developing countries into growing indebtedness towards private banks, the Second Oil Shock pushed them to the brink of fiscal collapse. With spiking oil prices feeding into another inflationary spiral, Federal Reserve Chairman Paul Volcker sought to bring America's double-digit inflation to an end with a shock of his own: On March 1980, he raised the Fed interest rate to 20%—a move that repercussed across the global financial system. For the dozens of countries that had borrowed from private banks to

[1] Daniel Yergin, *The Prize: The Epic Quest for Oil, Money, & Power* (New York: Free Press, 2009), 665–69.

cover their deficits since 1974, this pushed their debt service payments through the roof.[2] This was only made worse when Saddam Hussein's Iraq invaded Ayatollah Khomeini's Iran in September 1980—beginning of a bloody, protracted, and eventually pointless eight-year-long war. As financial panic worsened, oil price volatility peaked. By 1981, the First Oil Shock's destabilization of the Persian Gulf was laid bare: with their petrodollar-purchased Western arms, Iran and Iraq were bombing each other's petrodollar-funded nuclear reactors—that is, before Israel struck Osirak. Amid this instability—and the Iranian oil minister's imprisonment by the Iraqi army—OPEC announced its last price increase for a decade.[3]

By then, however, market forces had begun to shift against OPEC. Since the First Oil Shock, high oil prices had stimulated energy conservation, the development of alternative energies, and the exploitation of petroleum reserves in new frontiers—from the fringes of the Arctic to deep sea offshore waters. A new range of non-OPEC oil producers had also rushed to profit from the high oil prices: Mexico turned its back on half a century of inward-looking oil conservation to once again become a major oil exporter; the Soviet Union became a key oil and gas supplier for the West, using hydrocarbons as its main source of hard currency; Northern Sea production picked up, turning Norway into a petrostate; and the United States once again experienced an oil boom. The market tightness of the 1970s was finally reversed. As conservation measures and high prices curbed demand, and new supplies flooded the market, oil prices began to decrease, before

[2] Jeffry A. Frieden, *Global Capitalism: Its Fall and Rise in the Twentieth Century, and Its Stumbles in the Twenty-First*, First edition. (New York: W.W. Norton & Company, 2020), 372–79.

[3] Yergin, *The Prize*, 694.

experiencing a precipitous drop in the mid-1980s. The 1970s Oil Shocks gave way to the 1980s Oil Glut.[4]

The mix of exploding sovereign debt, the Volcker Shock, and the rise and decline of oil prices thus climaxed in Mexico's 1982 debt default—the first domino in a global debt crisis that hit both Latin America and the Eastern Bloc. The sovereign debt crises of the early 1980s wrecked the economies of oil exporters like Mexico, and oil importers like Argentina, of capitalist countries like Brazil and socialist countries like Poland. Thus, if the 1970s Energy Crisis unleashed processes of financialization, liberalization, and deregulation, the 1980s Debt Crisis opened the way for IMF structural reform programs and the so-called Washington Consensus. In these ways, we are still living under the shadow of the Oil Shocks of the 1970s.[5]

As such, the legacies of the 1970s Energy Crisis still ripple to this date. Concerned with making Persian Gulf oil "secure," the United States expanded its military presence in the region—becoming gradually entangled in the Middle East's "forever wars." When America discovered a clandestine nuclear weapons program in Iraq in the Gulf War's aftermath, persistent mistrust about Saddam Hussein's desire to develop weapons of mass destruction served as a justification for the U.S. invasion of Iraq in 2003. Meanwhile, the antagonism between the Islamic Republic of Iran and the United States persists—now with Iran's nuclear program as a focal point of contention.

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[4] Yergin, 697–726; Duccio Basosi, Giuliano Garavini, and Massimiliano Trentin, *Counter-Shock: The Oil Counter-Revolution of the 1980s*, 1st, First edition. ed., vol. 131., 131, International Library of Twentieth Century History (London • New York: I.B.Tauris & Co. Ltd, 2018).

[5] For the Latin American Debt Crisis, see Andrew M. Warner, "Mexico's Investment Collapse: Debt or Oil?," *Journal of International Money and Finance*, Journal of International Money and Finance, 13, no. 2 (1994): 239–56; Alicia Puyana, *México: de la crisis de la deuda al estancamiento económico*, 1a ed. (México, D.F.: Colegio de México, 2009); Barbara Stallings et al., *La crisis latinoamericana de la deuda desde la perspectiva histórica*, Desarrollo económico La crisis latinoamericana de la deuda desde la perspectiva histórica (Place of publication not identified: Comisión Económica para América Latina y el Caribe CEPAL, 2014); For the debt crisis in the Eastern Bloc, see Fritz Bartel, "Fugitive Leverage: Commercial Banks, Sovereign Debt, and Cold War Crisis in Poland, 1980–1982," *Enterprise & Society* 18, no. 1 (2017): 72–107; Fritz Bartel, *Triumph of Broken Promises the End of the Cold War and the Rise of Neoliberalism* (S.l.]: Harvard University Press, 2022).

Across the Persian Gulf, the U.S.-Saudi alliance still stands—even if under growing scrutiny and strain. Five decades after it bound its economy to the Middle East's hydrocarbons, the United States is still struggling to disentangle itself from this region—and the conflicts that it has both created and exacerbated therein.

Beyond these geopolitical considerations, the debates of the 1970s still shape the world's growing concerns for the environment and climate change. The Energy Crisis bears a complex relationship to our current efforts to "green" the world: it aroused environmental awareness, created a major push for energy conservation and responsible consumption, and directed billions of dollars towards research on renewable and alternative energies. This led, for instance, to a dramatic expansion of nuclear power in France, the United States, and Japan, and to the development of solar, geothermal, and wind power. However, Project Independence also pushed back against environmental regulations, and, from the United States to India, the Oil Shock breathed new life to the coal industry. Perhaps most ironically, the Energy Crisis preserved oil's centrality in the global energy system—not only because of the way in which our transportation, industrial, and electricity infrastructure had been built upon refined oil products, but also because of the financial flows and networks that oil trade feeds and sustains. Petrostates' sovereign wealth funds, for instance, remain some of the most significant institutional investors in our global economy. Through its petrodollar connection, the oil economy thus reaches way beyond the confines of the energy sector. The First Oil Shock thus teaches us about the simultaneous impetus and barriers to an energy transition.

And as we move to address today's mounting challenges, the 1970s Energy Crisis offers important lessons in the art of statecraft for an era of globalization and interdependence. First, it reveals the interconnectedness between policy areas that might otherwise appear to be unrelated:

the Arab-Israeli conflict, oil trade, the process of international monetary reform, inflation, food production, and nuclear nonproliferation were all intertwined through flows of petroleum and petrodollars. A narrow view of each of these problems would have sought to isolate them. A statesperson, however, should strive to understand the complexity of the international system. Otherwise, a policy response to one problem—such as oil trade deficits—could produce major challenges in another area—like nuclear security. Without grasping the hidden connections that underlie the system, one risks exacerbating existing problems or even creating new ones—unleashing in full force the law of unintended consequences. Such was the case of the French response to OPEC's oil price shock, and its nuclear export drives into the Persian Gulf.

This same logic extends to the geographical interdependence of our globalized world. The First Oil Shock reveals the futility of seeking national solutions to global problems—as France sought to do with its nuclear export drives—or even the temptation of treating them like domestic problems—as exemplified by Project Independence. In this sense, the multilateral management of globalization stands out as one of the key lessons that American leaders garnered from resolving the Energy Crisis—although, despite the promising North-South dialogues, this was restricted to an elite club of industrialized countries. In the face of recurring crises that transcend national borders, the dueling instincts of collaboration and unilateralism still coexist. But as shown in the Energy Crisis, even for a superpower like the United States, the successful management of globalization was predicated upon the restoration of multilateral cooperation, not on a move towards isolation and autarky.

Finally, at this particular moment, we are on the verge of what is taking the contours of another major energy crisis. Already in November 2021, gasoline prices were already soaring in the United States, Europe was experiencing a scarcity of natural gas, and China was rocked with power shortages—all in a context of soaring inflation. With the Russian invasion of Ukraine, war has once again rocked energy markets, and the West and Russia have each sought to gain the upper hand against the other through energy sanctions. The United States and Saudi Arabia are once again estranged—and the Saudi Crown Prince has refused to increase oil production to meet the West's demand. Meanwhile, the developing world is facing a fertilizer shortage, and the looming prospects of a food crisis. The media has noted the striking parallels with the 1970s. There is mounting speculation about an imminent transition in world order—although with little agreement as to what this shift would entail. Against Russia and China's calls for multipolarity, skyrocketing oil profits accumulating in Russian and Saudi coffers, and even the prospects for Saudi oil sales in Chinese yuan, there stands a surprisingly united Atlantic alliance, bent on protecting its so-called liberal international order, and doubling down on efforts to undertake an energy transition away from hydrocarbons. This Western response stands in stark contrast to the squabbling and infighting of the 1970s, and it may signal the cusp of another global transformation towards a new era of East-West conflict. But while it remains impossible to predict where the law of unintended consequences may take us, at least some lessons from history seem to have been grasped.

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