

# The OPEC Oil Crisis of 1973

## What Was the Oil Crisis of 1973?

In 1973 the United States supported Israel during the Yom Kippur War. Israel had occupied the Sinai Peninsula, previously Egyptian territory, and the Golan Heights, previously Syrian territory, since the Six Days War in 1967. The control of this territory angered Egypt and Syria so they launched a surprise attack on October 6, 1973, against Israel during the Jewish holiday of Yom Kippur. However, Israeli troops pushed through the attack and surged into Egyptian and Syrian territory.<sup>1</sup> Israel was directly and indirectly supported morally, economically, and militarily by many Western nations, including the United States, Denmark, and the Netherlands.

The Western nations' support of Israel prompted both the Organization of the Petroleum Exporting Countries (OPEC) and Iran to cease supplying oil to the West in an effort to force them



into rescinding their support of Israel. Even Western nations that did not help Israel were targeted by the embargo. The United Kingdom, for example, imposed an arms embargo on Israel, refused to allow American planes to use its bases in Cyprus, and continued to train Egyptian pilots, but still saw themselves cut off

from OPEC's oil.<sup>2</sup> In this case, despite continuing to help Egypt, the United Kingdom still felt the impacts of the oil embargo. The embargo spiked gas prices globally and the embargo was extended to other nations that supported Israel such as the Netherlands, Portugal, and South Africa.<sup>3</sup> In the United States, the embargo caused oil prices to increase by 350%.<sup>4</sup> This price increase led to a worldwide energy crisis that would have world leaders reconsidering their dependence on the Middle East as their energy suppliers.<sup>5</sup>

The United States had not always depended on foreign sources of oil. During World War I and World War II, the United States was a net exporter of oil, easily meeting its own needs and some of Europe's needs as well.<sup>6</sup> In 1945, the United States produced 50% of the globe's oil, but by 1948 the

<sup>1</sup> "Arab Oil Embargo." *Encyclopædia Britannica*. [www.britannica.com/event/Arab-oil-embargo](http://www.britannica.com/event/Arab-oil-embargo).

<sup>2</sup> "The Yom Kippur War and British Politics." *Fathom*. <https://fathomjournal.org/the-yom-kippur-war-and-british-politics/>.

<sup>3</sup> Ibid.

<sup>4</sup> "Energy Crisis." *National Museum of American History*. <https://americanhistory.si.edu/american-enterprise-exhibition/consumer-era/energy-crisis>.

<sup>5</sup> "Arab Oil Embargo." *Encyclopædia Britannica*. [www.britannica.com/event/Arab-oil-embargo](http://www.britannica.com/event/Arab-oil-embargo).

<sup>6</sup> "OPEC, International Oil, and the United States." *Oxford Research Encyclopedias*. <https://oxfordre.com/americanhistory/view/10.1093/acrefore/9780199329175.001.0001/acrefore-9780199329175-e-719>.

country was a net importer of oil, with most oil production centered in Latin America and the Persian Gulf in the Middle East.<sup>7</sup> Europe and Japan increasingly became reliant on the Middle East for its oil imports. This reliance on the Middle East and OPEC for oil gave these oil producers the ability to greatly influence energy prices in nations that imported their oil. In many countries oil was used for automobiles as well as generating electricity. France, for example, generated most of its electricity in the 1960s and 1970s from burning oil, but lacked its own domestic sources of oil, importing almost all its oil.<sup>8</sup>

Therefore, OPEC nations saw that it could influence other country's support for Israel in the Yom Kippur War by greatly increasing the price of oil. OPEC's objective was to force countries to end their support for Israel and help improve the position of Arab nations in the conflict's up-coming peace conference. OPEC would end the embargo if aid to Israel was ended and if Israel withdrew back to its original 1949 borders.

## The Nature of the Oil Market in 1970

OPEC, because it produced 56% of the globe's oil by 1970, was able to greatly influence the price of oil.<sup>9</sup> When OPEC instituted its embargo, it constricted the supply of oil, leading to an increase in price.<sup>10</sup> Prior to the embargo the oil market was controlled by a group named the Seven Sisters, made up of seven western oil companies that operated the majority of oil fields.<sup>11</sup> The Seven Sisters were the Standard Oil Company of New Jersey, the Standard Oil Company of New York, the Standard Oil Company of California, the Texas Oil Company, Gulf Oil, Anglo-Persian, and Royal Dutch/Shell. While these companies continued to pump oil, by the 1970s the old pricing system that had existed since the 1920s had begun to collapse as the oil companies and national governments in the Middle East came into conflict over how to split the profits from the sale of oil. The oil crisis exacerbated these conflicts and destabilized the global energy market.<sup>12</sup>

## Effects of the Crisis

### Economic Impacts

Upon the commencement of the oil embargo, gas prices began to sharply increase, reaching up to 4 times their original cost.<sup>13</sup> As costs rose, the concerns and fears of the affected populations did as well. Individuals reliant on automobiles for transportation began to form lines at gas stations repeatedly

<sup>7</sup> "Oil Dependence and U.S. Foreign Policy." *Council on Foreign Relations*. <https://www.cfr.org/timeline/oil-dependence-and-us-foreign-policy>.

<sup>8</sup> "Why the French Like Nuclear Energy." *PBS*. <https://to.pbs.org/3riegX6>.

<sup>9</sup> "Oil crisis of the 1970s." *Energy Education Canada*. [https://energyeducation.ca/encyclopedia/Oil\\_crisis\\_of\\_the\\_1970s](https://energyeducation.ca/encyclopedia/Oil_crisis_of_the_1970s).

<sup>10</sup> "OPEC vs. the US: Who CONTROLS Oil Prices?" *Investopedia*. [www.investopedia.com/articles/investing/081315/opec-vs-us-who-controls-oil-prices.asp](http://www.investopedia.com/articles/investing/081315/opec-vs-us-who-controls-oil-prices.asp).

<sup>11</sup> "The 1928 Red Line Agreement." *U.S. Department of State*. <https://history.state.gov/milestones/1921-1936/red-line>.

<sup>12</sup> "Oil Embargo, 1973–1974." *U.S. Department of States*. <https://history.state.gov/milestones/1969-1976/oil-embargo>.

<sup>13</sup> "The 1973 Oil Crisis and Its Economic Consequences." *Bill of Rights Institute*. <https://billofrightsinstitute.org/essays/the-1973-oil-crisis-and-its-economic-consequences>.

throughout the day to fill up their gas tanks.<sup>14</sup> However, this only led to gas and oil supplies running out quicker. At the time, oil was used by many countries to generate electricity, heat their homes in cold weather, and propel automobiles; but also played a significant role in the manufacture of plastics and materials for roads. This meant that high oil prices did not only impact people who drove, but the entire economy. Because of the oil crisis, the New York stock market lost \$97 billion in value and the London Stock Exchange saw its greatest collapse since the Great Depression.<sup>15</sup>

The economic pain felt by each nation varied based on their dependence on oil imports to meet their energy needs. Therefore, nations that relied on OPEC for higher volumes of oil imports and usage were impacted at a much deeper rate much faster. Countries such as Japan and France, the



Netherlands, and Denmark relied on OPEC for 45% to 50% of their oil, making the impacts of a longer embargo potentially much harsher than countries with lesser dependence; such as the United States, which only relied on OPEC for 30% of its oil.<sup>16</sup> West Germany imported 96% of its oil on the eve of the Oil Crisis.<sup>17</sup> On the other hand, Japan and most of

Western Europe were better prepared during the embargo's early stages as they, "had stockpiled oil supplies, and thereby secured for themselves a short-term cushion..."<sup>18</sup> Nevertheless, these short-term supplies could not last for long and the possibility of oil prices staying high long-term threatened the relationship between the United States and Western Europe and Japan.<sup>19</sup> Nations such as the United States that contained its own natural resources and the potential of developing alternative means of electricity were more capable of blunting the blows from the oil embargo by drawing upon their own resources to supply energy.

The startling price increase in oil might have been manageable had the economies of Western nations been better prepared. Unfortunately, much of the west was stuck in a cycle of stagflation. Stagflation is a phenomenon in economics characterized by both high unemployment and inflation, as well as a stagnant demand. Typically, when there is high unemployment there is low inflation and when there is high inflation, unemployment is low. But because of a variety of factors, including

<sup>14</sup> "From Oil Crisis to Energy Revolution – How Nations Once before Planned to Kick the Oil Habit." *Rapid Transition Alliance*. [www.rapidtransition.org/stories/from-oil-crisis-to-energy-revolution-how-nations-once-before-planned-to-kick-the-oil-habit/](http://www.rapidtransition.org/stories/from-oil-crisis-to-energy-revolution-how-nations-once-before-planned-to-kick-the-oil-habit/).

<sup>15</sup> "Comparing Bear Markets - 1973 and 2000. *National Institute of Economic Review*. <https://www.cambridge.org/core/journals/national-institute-economic-review/article/abs/comparing-bear-markets-1973-and-2000/10D8548851428A07CA2E6CECCBEA20E6>.

<sup>16</sup> "The 1973 Oil Crisis and Its Economic Consequences." *Bill of Rights Institute*. <https://billofrightsinstitute.org/essays/the-1973-oil-crisis-and-its-economic-consequences>.

<sup>17</sup> "The History of Energy in Germany." *Planete Energies*. <https://www.planete-energies.com/en/medias/saga-energies/history-energy-germany>.

<sup>18</sup> "Oil Embargo, 1973–1974." *U.S. Department of States*. <https://history.state.gov/milestones/1969-1976/oil-embargo>.

<sup>19</sup> Ibid.

high-government spending in the 1960s and early-1970s, low-interest rates, and wage stagnation, produced a cycle of stagflation.<sup>20</sup>

In the United States, President Nixon had tried to control the situation by devaluing the American dollar, enacting wage and price-freezes, and ending the ability to convert American dollars for gold.<sup>21</sup> But all of these actions had a limited impact, with the United Kingdom experiencing 5.84% inflation in 1970 when the country had typically seen inflation below 1%.<sup>22</sup> Nations, such as the United States and United Kingdom were already facing the effects of stagflation which the introduction of the oil embargo, only proceeded to make harsher; the United Kingdom saw its inflation rate hit 24%.<sup>23</sup> <sup>24</sup> These conditions were not just limited to the United States and United Kingdom, with Italy's 1973 inflation rate reaching 10.8%.<sup>25</sup> Countries impacted by the oil embargo were poorly equipped to deal with its impacts, unable to effectively invest in new potential energy sources or energy saving technology quick enough to make a difference.

### **Environmental Impacts**

Upon losing access to their oil imports, impacted nations sought potential ways to harness wind, sun, and geothermal energy and identify new, non-OPEC sources of oil.<sup>26</sup> Their efforts encouraged changes in many people's behavior towards energy usage and formed the beginnings of alternative energy and energy conservation laws such as new standards for energy conservation. Such standards included a fuel efficiency standard for cars in the United States.<sup>27</sup> Lower fuel accessibility also sparked events such as the Brazilian ethanol revolution.<sup>28</sup> The revolution consisted of cooperation between sugarcane farmers, ethanol distillers, car manufacturers, and environmentalist groups. Together, they worked to establish a cleaner, cheaper, and more reliable fuel source for their vehicles.<sup>29</sup> Revolutions like this carried out the beginnings of technological innovations to reduce the demand for oil in the future and reduce the impacts of the current (and any future) oil embargoes.<sup>30</sup>

Additionally, government actions through bodies such as the Environmental Protection Agency (EPA), in the United States, were instrumental in providing alternate and clean energy forms and plans during the crisis. The EPA established a range of programs to help reduce energy usage by fossil fuels citing that the reduction of energy use both helps to tackle the energy problem but also limits the environmental effects of burning those fossil fuels. The programs included transportation control plans, land use programs, building insulation improvements to limit heating, and resource

<sup>20</sup> "Stagflation and the oil crisis." *Khan Academy*. <https://bit.ly/3B05Nv0>.

<sup>21</sup> "Brief History of the Gold Standard in the United States." *Congressional Research Service*. <https://sgp.fas.org/crs/misc/R41887.pdf>.

<sup>22</sup> "U.S. Inflation Rate 1960-2021." *Macrotrends*. <https://www.macrotrends.net/countries/USA/united-states/inflation-rate-cpi>.

<sup>23</sup> "Stagflation Definition." *Investopedia*. [www.investopedia.com/terms/s/stagflation.asp](http://www.investopedia.com/terms/s/stagflation.asp).

<sup>24</sup> "Background: What caused the 1970s oil price shock." *The Guardian*. <https://bit.ly/3ngKSPx>.

<sup>25</sup> "The Italian Economic Crisis of the 1970s." *The Federal Reserve*.

<https://www.federalreserve.gov/pubs/ifdp/1978/120/ifdp120.pdf>.

<sup>26</sup> "From Oil Crisis to Energy Revolution – How Nations Once before Planned to Kick the Oil Habit." *Rapid Transition Alliance*.

<sup>27</sup> "A Brief History of US Fuel Efficiency Standards." *Union of Concerned Scientists*. <https://bit.ly/2Z9QSRP>.

<sup>28</sup> "From Oil Crisis to Energy Revolution – How Nations Once before Planned to Kick the Oil Habit." *Rapid Transition Alliance*.

<sup>29</sup> "The Rise of Brazil's Sugarcane Cars." *Rapid Transition Alliance*. [www.rapidtransition.org/stories/the-rise-of-brazils-sugarcane-cars/](http://www.rapidtransition.org/stories/the-rise-of-brazils-sugarcane-cars/).

<sup>30</sup> "From Oil Crisis to Energy Revolution – How Nations Once before Planned to Kick the Oil Habit." *Rapid Transition Alliance*.

recovery plans amongst others. These programs not only helped the United States better adapt to the ongoing crisis but also set a large precedent for greener alternatives and environmental awareness.<sup>31</sup>

### **Government Actions**

As the effects of the embargo became worse, governments began formulating plans to address the shrinking access to oil in order to ensure their future security of fuel resources as well as to ensure that they could procure enough energy for their current populations. The United States enlisted the help of NASA to attempt to develop greener energy sources and Denmark began to investigate wind power as an alternative means of electricity.<sup>32</sup> Japan began a full revision of its Middle Eastern policies. These included recognizing the rights of the Palestinian people and reviewed its relations with Israel.<sup>33</sup> Unable to immediately increase the supply of oil, many countries took steps to decrease demand by imposing speed limits on highways, limiting driving, boating, and flying, and conserving heating oil by heating fewer rooms in one's house.<sup>34</sup> The Netherlands even introduced prison sentences for excessive electricity usage.<sup>35</sup> But these conservation policies did not decrease demand for oil by enough to seriously lower the price and allow things to return to normal.

Longer-term, the oil crisis forced many countries to reconsider the sources of their energy. In Europe, France and Germany invested in nuclear energy for electricity generation. Both countries also helped build pipelines to the Soviet Union and Norway, reducing the amount of oil imported from OPEC nations.<sup>36</sup> Japan took similar steps, but Japanese auto-companies sought to reduce future demand for oil by manufacturing smaller, more fuel-efficient vehicles. The crisis also changed how homes were built, with energy-saving windows, insulations, and appliances introduced and mandated in many countries.

## **Bloc positions**

Because this committee is set during 1973 during the Cold War, most of the participating nations are broken into different blocs. They were divided into three main blocs comprising the Western Bloc, the Eastern Bloc, and the Non-Aligned movement.

### **The Western Bloc**

The Western Bloc was composed of nations that allied themselves with the United States, such as through the North Atlantic Treaty Organization, or through bilateral treaties with the United States, such as Japan and Australia.<sup>37</sup> The Western Bloc is fully against the oil embargo as it targets mainly Western Nations. The goal of this bloc is to have the embargo lifted as quickly as possible to limit damages to their economies and other sectors.

<sup>31</sup> "EPA's Position on the Energy Crisis." *Environmental Protection Agency*. <https://bit.ly/3DRba1s>.

<sup>32</sup> "From Oil Crisis to Energy Revolution – How Nations Once before Planned to Kick the Oil Habit." *Rapid Transition Alliance*.

<sup>33</sup> "Oil Crisis of 1973." *Japan Module*. [www.japanpitt.pitt.edu/glossary/oil-crisis-1973](http://www.japanpitt.pitt.edu/glossary/oil-crisis-1973).

<sup>34</sup> "Energy Crisis (1970s)." *History.com*. <https://www.history.com/topics/1970s/energy-crisis>.

<sup>35</sup> "Four decades later, has America finally got over the oil crisis?" *The Conversation*. <https://bit.ly/3C3nJWK>.

<sup>36</sup> "The History of Energy in Germany." *Planete Energies*. <https://bit.ly/3aY7Www>.

<sup>37</sup> "Western Bloc." *Military Wiki*. [https://military.wikia.org/wiki/Western\\_Bloc](https://military.wikia.org/wiki/Western_Bloc).

## The Eastern Bloc

The Eastern Bloc was made up of nations and alliances who were in favor of communism and allied themselves with the Soviet Union forming groups and alliances such as the Warsaw Pact.<sup>38</sup> While not affected by the oil embargo the Eastern Bloc did not involve themselves in aiding their western counterparts and actually sent economic and military aid to Syria and Egypt during the Yom Kippor War. The Soviet Union was not an ally of Israel and therefore it was not targeted by OPEC.

## The Non-Aligned Movement

The Non-Aligned Movement was formed through a group of nations that did not wish to align themselves with either the United States or the Soviet Union and wished to remain neutral. The pact was designed to ensure its members did not become involved in military conflict from either side.<sup>39</sup> The majority of these nations went unaffected with the exceptions of South Africa and Rhodesia. This bloc is most likely concerned with finding a peaceful solution to the problem.

## Richard Nixon's Address

In his speech, president Nixon begins with explaining the crisis before going on to highlight the necessary actions to be taken. He notes that there will be sacrifices required by each citizen but advises them to remain strong in the face of this crisis. Nixon then proceeds to outline his plan to tackle the energy crisis. He begins with a multi-step plan to reduce energy usage domestically and calls upon local governors and mayors to make additional steps to make changes more effective in certain regions of the nations. Next, President Nixon goes on to reveal new legislation that is intended to not only support energy conservation measures but to additionally increase development and production of naval petroleum supplies as well as other energy research and development projects. By doing so Nixon provides a plan of action to his citizens and works toward being able to ensure America is less dependent on foreign oil to supply the nation with energy. He also notes the sacrifices to be made with the coming domestic changes and urges Americans to remain strong alongside calling up congress to act swiftly in order to ensure America can meet its own energy needs by the projected year of 1980.<sup>40</sup>

## Questions to consider

1. How can other nations affected by the Oil crisis take internal action to limit the effects of the embargo and ensure public fears are soothed?
2. What roles should members of the Non-Aligned movement do in order to help resolve the conflict?
3. What might be a potential solution that members of all three blocs could agree upon?
4. How might this crisis affect nations' reliance on others for oil as well as other goods?

<sup>38</sup> "What Was the Eastern Bloc?" *WorldAtlas*. [www.worldatlas.com/articles/what-was-the-eastern-bloc.html](http://www.worldatlas.com/articles/what-was-the-eastern-bloc.html).

<sup>39</sup> "Non-Aligned Movement (Nam)." *Nuclear Threat Initiative*. <https://bit.ly/3vtv8wd>.

<sup>40</sup> "Address given by Richard Nixon (7 November 1973)." *The Centre Virtuel de la Connaissance sur l'Europe*. [www.cvce.eu/obj/address\\_given\\_by\\_richard\\_nixon\\_7\\_november\\_1973-en-1158015d-8cf9-4fae-8128-0f1ee8a8d292.html](http://www.cvce.eu/obj/address_given_by_richard_nixon_7_november_1973-en-1158015d-8cf9-4fae-8128-0f1ee8a8d292.html).