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The 1973 Oil Crisis: a Look after half a Century

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Abstract. The article examines the prerequisites and consequences of the global oil crisis of 1973. It analyzes not only the political reasons that prompted the Arab oil exporting countries to use the "oil weapon" (the unresolved Middle East conflict and the Palestinian problem), but also the crisis phenomena in the Western economy. Not only Arab countries, but also powerful oil companies, backed by Western countries, especially the United States, were interested in change. For the West, the oil crisis caused difficulties and problems in the short term, but in the long term it turned out to be a catalyst that accelerated structural and technological changes in the Western economy and in the global financial system. The oil crisis allowed the oil-producing countries of the Arab East to sharply increase the level of state income, which opened up opportunities for accelerated socio-economic development, and also increased the authority of these countries and OPEC in international relations.

Keywords: oil, oil crisis, "oil weapons", oil monopolies, USA, Saudi Arabia, dollar, petrodollars

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Introduction

The consequences of the oil embargo that broke out in 1973 were of epochal significance. What was perceived by contemporaries as a confrontation between Arab oil-producing countries and Western oil monopolies, behind which stood the leading states of the Western world, initially had more complex and in many ways contradictory goals on both sides. In the decades since then, not only have documents and evidence surfaced about the details of the preparation of the coup in the world oil industry, but changes have also occurred in the world economy as a whole, the instigator and accelerator of which was the oil crisis of 1973.[1]

1 An interesting assessment of the significance of the oil crisis is contained in the article: Makarov I., Chupilkin M. Oil Pearl Harbo. Oil crisis of 1973. Russia in global politics. 2021;1.

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These events are not only of historical interest. The process of forming a new world order in our time, signifying the end of 500 years of Western domination in the world system, could have begun several decades ago. The change in the nature of relations of oil-producing countries not simply with the Western oil monopolies, but with the West as the main subject of the world order within the framework of these events determined that these events became the last and decisive ones in the twentieth century before the global rebalancing of relations between the Western Center and the non-Western Periphery in the world system in the first decades of the twenty-first century.

Before that, there were the defeats of France at Dien Bien Phu in 1954, the nationalization of the Anglo-French Suez Canal by Egypt in 1956, the creation of OPEC by the Eastern countries in 1960, the withdrawal of Great Britain "to the east of Suez" in 1971, the defeat of the USA in Vietnam in 1975. All this represented the West's retreats – albeit minor and local – from its usual position as the hegemon of the world system. At that time, the USSR sought to present itself as an alternative center of power – in the military-political and socio-economic spheres, but this tendency soon faded away. In those circumstances, it became possible for non-Western oil-producing countries to use the "oil weapon".

The oil crisis of 1973 was partly man-made, and partly objectively arose during the disclosure of the model of market economy – industrial mass production – that prevailed in the world. Therefore, the consequences of the crisis are not limited to the experience of the Arab countries using the "oil weapon" and the transformation of OPEC countries into real subjects of the world economy and world politics. The above processes marked the beginning of the global energy transition, the technological revolution and the emergence of the beginnings of the post-industrial world.

The 1973 oil crisis will not be repeated. It was local in time and resources used, and its analogues in the early 1980s or in 2004 and 2018 no longer had the stunning effect of novelty and scale. The situation in the global energy sector has changed irreversibly, as has the position of the participants in the 1973 oil crisis.

But its experience showed the possibility of the emergence of this type of structural global economic or world political crises in the future, with a gradually maturing combination of causes and a random pretext, with active subjects and interested observers. This was the beginning of the formation of a new world order. And the experience of that crisis helps to clarify the possible sources and consequences of the processes taking place before our eyes.

It is important to emphasize that oil became the cause and immediate trigger for the global crisis due to its nature – at that time it was a vital source of energy, and Western oil monopolies were among the most powerful in the world at that time. Two circumstances are no less important: the American dollar, the main world currency, was used to calculate oil transactions, and control over the world oil market was seen at that time as one of the foundations of American hegemony in the world.

As a result, the divergent interests of the United States and Arab oil-producing countries suddenly came together. The "oil – money – power" link was created.

Everything was tied into one "oil knot", but not spontaneously. A combination of objective prerequisites for solving the financial problems of both Arab countries and the United States was formed. A subjective political factor was also formed: the readiness of both Arab countries and the United States to take decisive military action.

The term "oil crisis" used here means abrupt and large-scale changes in the world oil market in the volumes of oil production and export, in determining oil prices and consumer access to the desired volumes of oil and oil products. Part of the oil crisis is the oil embargo – a state ban on the supply of oil and oil products.

This article examines the prerequisites for the "oil crisis" of 1973, the search for its resolution in the West and the East, and its main consequences for the countries of the West and the East.

Materials and Methods

There is a vast literature on the events associated with the 1973 oil crisis, which has established several approaches to explaining the causes of the crisis: a predominantly political origin, where the initiative was given to the Arabs, and a predominantly economic one, where the crisis was explained by the reduction of available natural resources (oil and gas), as well as a combination of both of these origins to varying degrees. Such ideas about the named processes were expressed in their studies by E.M.Primakov, B.Rachkov, K.Tugendhat and A.Hamilton, D.Chevalier, D.Ergin, J.McFarland, O.Skorokhodova and other energy specialists [3, 4, 9, 11, 13, 16, 22].

This study analyzed historical facts and statistical data, methods of historical and static analysis.

Results

Positions of the parties to the conflict

The conflict between oil-producing countries and Western countries was caused by economic and political reasons.

The needs of socio-economic development, and accelerated development to overcome the gap in living standards, prompted the authorities to seek to increase revenues. The idea of nationalizing the oil industry, which seemed bold and revolutionary in the 1950s, when the oil ministers of Venezuela and Saudi Arabia started talking about it, seemed achievable two decades later.

The "freezing" of the Middle East conflict in the context of the high ideological content of the Middle East in those years and the influence of the ideology of Arab nationalism prompted the Arab authorities to find a lever of pressure on the West to change its attitude to the regional settlement of the Middle East conflict and the recognition of the rights of the Palestinian people. It was necessary to get out of the negotiating impasse that had arisen. The "oil weapon" in the Arab world had been mentioned before, in 1956 and 1967, but for various reasons it had proved impossible. Now the Arab countries had become stronger economically and socio-politically and relied on support, and some even on direct aid, from the USSR.

The prerequisites and conditions of the oil embargo that arose in the Middle East are not the immediate causes of the ensuing global crisis. They created opportunities for the emergence of a pretext for an oil embargo and a change in pricing on the oil market. The causes of the crisis were deeper processes, both in the world economy and in the relationships between oil-producing countries and oil-consuming countries. This is a systemic crisis of the industrial society of mass consumption in the West, complicated by the problems of the US financial system, and the need of Arab countries to implement an industrial development model in the process of modernization in order to overcome a deep socio-political crisis, which required large financial resources. In both cases, these deep crises were resolved through agreements and compromises between the two parties.

The situation in the world oil industry

Already in the early 1960s, the situation on the world oil market had changed noticeably compared to the previous decade, both in terms of oil importing and oil exporting countries, Western companies, and oil-producing countries. Oil consumption grew rapidly, increasing 15-fold in Western European countries, from 0.97 million barrels per day in 1949 to 14.1 million barrels in 1972, and 100-fold in Japan, from 0.032 million barrels to 4.4 million [4:569].

The USSR entered the world market, ready to supply large volumes of oil at lower prices than Western companies after the start of production at fields in Western Siberia; oil and oil product exports increased 4-fold, from 30 million tons in 1960 to 130 million tons in 1975[2]. The USA, the world's largest oil producer until 1974, was increasing production in the country: in 1963 – 8.6 million barrels per day, in 1973 – 10.9 million barrels.

In March 1959, the USA introduced mandatory quotas on oil imports. Europe tried to become independent in oil matters: the head of the Italian company ENI E. Mattei sought to provide Italy with its own oil supplies from Iran and the USSR, so as not to depend on "Anglo-Saxon companies". New production companies appeared in the Middle East: in 1946 there were 9, in 1956 – 19, in 1971 – 81 [4:558]. By the end of the 1960s, colossal oil fields were discovered in Libya, and the rate of growth of its production was equal to the level of Saudi Arabia: 16.7% and 16.3%. The Shah's Iran competed with the Saudi kingdom, lagging behind in production, but also increasing it by an average of 14.9% per year [12:468].

2 The Great Soviet Encyclopedia. Volume 24-I:254.

"From the beginning of the fifties to the end of the sixties," wrote D. Yergin, "the world oil market was determined by unusually rapid growth, a gigantic tide, which, like a powerful and frightening stream, carried everyone in industry with it with irresistible force. Consumption grew at a rate that simply could not be imagined at the beginning of the post-war era. However, although the growth of consumption was high, the availability of supplies outpaced it" [4:524]. The authorities of the countries of the region handed out more and more concessions and demanded that Western operating companies increase the level of production in order to increase state revenues necessary for modernization.

This led to the fact that the amount of oil produced exceeded the volume of demand in the oil markets. Western countries were sure that high dependence on Arab oil was not a problem, since the buyer dictates the terms in this market. However, oil companies, whose profitability was declining, began to increase discounts on oil offered on world markets. A gap arose between the market price and the official price that was fixed in the contracts of Arab countries and Western operating companies; it was almost impossible to reduce it.

The producing countries received not the agreed 50% of profit, but 60% or even 70%, and the income of Western oil monopolies was reduced. The circumstances led first to British Petroleum in 1959 to lower prices by 10% (by 18 cents per barrel), and in August 1960 to Standard Oil of New Jersey to announce a 7% (by 14 cents per barrel) reduction in the price of Middle East oil. The unilateral price reduction outraged the Arab oil producing countries. In response, on the initiative of the Saudi oil minister Abdullah Tariki, OPEC was created in September 1960.

The OPEC countries thought that they had created their own international cartel (regulating the distribution of sales markets and the price level), equal to British Petroleum and others. But this was an illusion. A claim to independence does not mean real independence. At that time, the founding countries only recognized the enormous potential of OPEC, but were not yet able to use it. They were opposed by the powerful oil cartel "Seven Sisters" that emerged in the 1930s.

In 1972, the world's 20 largest oil companies included 7 oil monopolies, including 5 American "oil elephants". For example, in 1972, the "Seven Sisters" accounted for about 60% of oil production in capitalist countries, 85-90% of oil exports from developing countries, and control over 90% of oil-bearing provinces [18:22]. British Petroleum and Frances de Petroleum were partly owned by the state, and American companies had strong levers of influence on the American administration. These companies were acquiring the power of financial institutions. The predominant form of their expansion was the export of capital. Their power as opponents of OPEC was seen as indestructible.

But the leaders of ARAMCO, Gulf Oil, British Petroleum and other Western companies themselves were already feeling anxious about the future of their concessions. This anxiety was intensified by the fact that in the United States, American oil companies operating in the country were pushing for the adoption of restrictions on imported oil by the state. Both the Eisenhower and Kennedy administrations were forced to impose restrictions on oil imports from the Middle East in the 1960s, while at the same time trying to keep the region within their sphere of influence.

The special role of Saudi Arabia

Saudi Arabia, due to natural causes, became the leader of OPEC, which was supported by the amount of oil reserves of the kingdom, the bold and proactive policy of the Minister of Oil Abdullah Tariki. Having studied the experience of relations between Mexico and Venezuela, neighboring Iran with Western oil companies, taking into account the experience of nationalization of the Suez Canal, Tariki came to the idea of the need to nationalize ARAMCO. His slogan “Arab oil – to the Arabs!” met with wide support in the region. However, the final decision on oil issues in the kingdom was made by King Faisal. He could not help but recognize the firmness and independence in defending Saudi interests, which Tariki demonstrated as the Minister of Oil and a member of the ARAMCO board. But the king remembered well the sad experience of Mossadegh in nationalizing Iranian oil, and was not going to “cut the goose that laid the golden eggs in the state treasury.” At the same time, the transfer of this “chicken” to the full ownership of the state, that is, the Al Saud family, seemed attractive. Not only time was needed, but also, first of all, agreements with the United States, on which the kingdom largely depended. In 1962, Faisal removed Tariki from his post as minister, replacing him with the more obedient Ahmed Zaki Yamani. The reason was Tariki’s conflict with one of the members of the royal family, but Faisal knew that ARAMCO would gladly accept the news of the departure of the “red” minister, whose radical rhetoric frightened Western oil companies.

Geological exploration showed that the kingdom contained a quarter of the world’s oil reserves. In 1963, ARAMCO produced only 10% of the available industrial reserves. The oil deposits remained favorable for production (a large area of productive strata located at a shallow depth and high gas pressure) and the high quality of Arabian oil (low sulfur content). The company’s exploration and drilling costs remained among the lowest in the world. The reserves of the largest fields in 1969 were: the world’s largest Ghawar field – 10.8 billion tons, the world’s largest offshore oil field es-Safaniya – 2.1 billion tons, Abqaiq – 1.1 billion tons. In the 1960s, the company launched 6 new large fields. In total, in 1970, the company had 427 productive wells with an average flow rate of about 1,000 tons of oil per day per well; 66 wells were plugged, since they either did not flow or produced grades of oil that had low demand on the world market [8:115, 118, 119]. The Saudis were on the board of ARAMCO and could influence the company’s policy, especially given the direct relationship between King Faisal and the company’s managers, but ARAMCO remained in the full sense of the word a “state within a state”: the Saudi authorities had no right to interfere in affairs on the company’s concession territory, the company had its own security.

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Table 1. Direct contributions from oil companies to the Government of Saudi Arabia ($ million)

	ARAMCO	Getty Oil	JSC
1960	312,8	18,4	2,5
1965	618,4	23,8	20,4
1970	1088,4	17,2	40,3
1971	1866,4	20,6	44.2
1972	2677,9	28,0	68,7

Source: [4: 134]

On the Approach to Crisis

It is difficult to say unequivocally what exactly upset the balance on the world oil market in 1970-71. Subjective and objective circumstances coincided. According to M.M. Kovalevsky, “To speak of a factor, that is, of a central fact that carries all the others along with it, is the same as speaking of those drops of river water that by their movement mainly determine its flow. In reality, we are dealing not with factors, but with facts, each of which is somehow connected with the mass of the others or is determined by and determines them” [cit. from: 12:522]. Half a century later, the connection of a mass of different “facts” and their general cumulative impact on affairs in the region in the early 1970s is visible.

Syria unexpectedly began to hinder the restoration of the damaged TAPLINE pipeline. The new Syrian authorities after the military coup of November 13, 1970 (according to the official ideology of the “corrective movement”) needed to increase financial revenues to expand their social support, one of the sources of which were payments from the TAPLINE oil pipelines from Arabia and the IPC from Iraq. The revolutionary regime of Muammar Gaddafi suggested that Occidental Petroleum reduce oil production, the revenues from which could not be used rationally in a country with a small population and a weak economy. The Algerian authorities put forward new demands on Western oil companies. Attempts by Western companies to compensate for the resulting oil deficit with supplies from the Persian Gulf turned out to be impossible due to a shortage of large-tonnage tankers.

As a result, Western European countries were faced with the threat of a daily shortage of 50,000 barrels of oil (equivalent to 25 million tons per year). Meanwhile, demand for oil products in the winter of 1970-71 was much higher than in previous years: in Western Europe it grew by 13.3%, in Japan – by 20% [16:53, 59]. The shortage of oil volumes and tonnage for its transportation contributed to the rise in oil prices. And it turned out that the main oil importers, including the United States, were willing to pay a very high price for the oil they needed so much. Thus, the “buyers’ market” turned into a “sellers’ market”.

In December 1970, at the 21st Conference of OPEC Ministers in Caracas (Venezuela), a resolution was adopted that became a common platform for oil-producing countries for upcoming negotiations with oil monopolies.

The reaction of the West was indicative. First, meetings of oil company management with government members were held in Washington, where they

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managed to obtain the consent of the federal authorities for joint actions of the "oil elephants", which formally contradicted antitrust legislation. Then, the monopolies of Great Britain, France and the Netherlands received support, which allowed the former "seven sisters" to feel the direct support of the state. And on January 15, 1971, 15 of the largest oil companies in the West presented OPEC with their memorandum, in which they agreed to revise reference prices for oil in all countries (taking into account inflation) on the condition of refusing to increase tax rates and from mandatory reinvestment of profits [16:73].

Special envoy of the US President D.Irwin visited those OPEC countries whose support could be counted on to explain the West's position. The fundamental unity of the producing countries was undermined by the fact that the North African countries were closer to consumer markets, and short-distance transportation entailed different freight rates, which was reflected in prices. On February 16, 1971, the Tehran Agreement was signed, according to which the minimum tax rate was set at 55%, uniform reference prices were introduced with their annual increase to compensate for inflation, and the price of 1 barrel of oil rose by 33 cents, and all discounts for oil companies were cancelled. On April 2, 1971, an agreement was signed in Tripoli, which was more advantageous for the producing countries in some points [16:73-75].

But the success was short-lived. In August 1971, US President R.Nixon announced the transition to a new economic policy to combat recession and stagflation, to prevent a decline in industrial production and suppress inflation. On August 15, 1971, R.Nixon decided to suspend the conversion of dollars into gold, essentially devaluing the dollar.

The anti-crisis measures of the American administration had an impact in the Middle East. The abolition of the gold standard of the dollar immediately brought down the only just increased incomes of oil producing countries, since reference prices were tied to the dollar. The Arabs again felt their impotence in the face of the West.

In September 1971, at the XXV OPEC Conference in Beirut, a common position was expressed: to return to negotiations with oil companies on the issue of compensating for losses from the weakened dollar. It was reached in the Geneva Agreement of January 20, 1972.

More important in the long term was the second resolution (No. 139) of the Geneva Agreement, which affirmed the right of OPEC member countries to seek effective (direct) participation in oil concessions. This proclamation of the principle of participation was the first step toward the transfer of the Arab oil industry to state ownership, an alternative to the revolutionary nationalization of Western property.

Yamani first spoke about participation in a lecture at the American University of Beirut in 1968. At the time, this caused a sharply negative reaction from ARAMCO leaders. But by 1972, a wave of nationalization of Western oil companies had taken place in Libya, Algeria, Venezuela, Indonesia, Iraq, and Syria. Faisal, who stood behind Yamani, was not playing a "blitz" game, but a long-term one. He did not need oil production and refining capacities without specialists and workers, without the ability to sell products on foreign markets. He was interested in a stable flow of funds to implement plans to modernize the

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country, and he saw the transfer of the oil sector to state ownership as part of these changes. And ARAMCO leaders agreed to the principle of participation in mid-1972.

In the long term, this meant preserving the positions of ARAMCO companies in the kingdom, albeit on different terms. It was obvious that the kingdom's growing income would be spent on importing necessary goods from Western countries, especially from the United States. In this way, the United States would improve its balance of payments, compensating for its losses in the form of oil payments and reducing the mass of "floating capital" that was dangerous for the Western financial market. Thus, following the oil "field of interaction", a second "field" of financial interaction emerged between the United States and Saudi Arabia, which also formed the basis of the "special relations" of the two countries. In the same 1972, similar agreements on participation were concluded with Kuwait, Qatar and Abu Dhabi. Their actual status in the world system increased.

Changes in the Western camp

The question arises: did the powerful oil and industrial corporations and financial centers of the West, led by the United States, really submit so helplessly to the wave of Arab nationalism? Why did they make concessions? Why didn't they use the tried and tested "gunboat diplomacy" of force? There can be no clear answer here. Changes were also taking place in the lives of Western countries.

Decades later, William F. Engdahl drew attention to such important phenomena of that time as the crisis of the American dollar and the relative weakening of the United States.

Since the 1950s, the economies of the West have been rapidly developing, but gradually, in the course of the countries of Western Europe, they began to outpace the United States in terms of growth rates, and their share of world exports exceeded that of the United States. The EEC, created in 1957, developed in 1959 as a powerful economic union based on the rapidly gaining strength economies of France, Germany, Italy and the Netherlands. The Eurodollar market emerged and grew rapidly.

Successes in the economy were reflected in politics, the close ties between the President of France Charles de Gaulle and the Chancellor of the FRG K.Adenauer were strengthened. Despite the replacement of K.Adenauer by the "Atlanticist" L.Erhard, after the signing of the agreement in 1963 on regular consultations between the two countries, military cooperation, etc., the relations between France and the FRG developed into the formation of a world center competing with the USA. Charles de Gaulle had previously said directly in a letter to President D.Eichsenhower: "... I cannot agree with the integration of France into NATO" [17:132]. In 1966, France left the NATO military organization and liquidated American military bases on its territory. In the same year, Charles de Gaulle visited the USSR, which was followed by an expansion of cooperation between the two countries.

And then there was more. In 1967, France withdrew from the American-initiated "Common Gold Fund" of leading Western countries, created in 1961 to stabilize the financial system of Western economies, and, in fact, to maintain the world (lowered) price of gold at $35 per ounce, to which the dollar was pegged. But the dollar was getting cheaper, and following the devaluation of the pound sterling in November 1967 by 14%, it was the dollar's turn. Market prices for gold began to rise. The influx of investment into the more profitable European market increased.

In 1967, the US gold reserves decreased by $1 billion. In March 1968, the US requested a two-week break in the London gold market. At the same time, South Africa refused to sell its mined gold for pounds or dollars at the official price of $35 per ounce (this gave rise to the Western boycott of South Africa). In April 1968, Charles de Gaulle challenged the United States by demanding that French dollar reserves be exchanged for gold. And France ultimately received 66.5 tons of gold. In their monograph "The Energy Crisis in the Capitalist World" (1975), Soviet authors already then drew attention to the brewing currency crisis, which was taking the form of a "dollar crisis," which "was losing its former ability to perform the function of world money" [18:375]. In the early 1970s, concerns arose that the world economy could collapse. The hegemony of the United States in the Western world system was shaken by a severe currency crisis. Washington sought to stop and reverse this process.

What do the Arab oil-producing countries have to do with all this? Without the passive and partly active participation of Saudi Arabia and other Gulf oil monarchies, the United States could hardly have maintained its hegemony. On February 18, 1970, US President R.Nixon said in his first report on foreign policy: "Our objective is first and foremost to strengthen our interests in the long run by a sound foreign policy. The more that policy is based on a realistic assessment of our interests and those of others, the more effective can our role in the world be. We are not committed to the world because we have obligations; we have obligations precisely because we are committed to the world. Rather, our interests should shape our obligations than vice versa" [5:700]. Such Realpolitik included, among other things, taking into account the interests of others, that is, the interests of Saudi Arabia and the oil-producing countries. It is easy to draw such conclusions now, but at that time this new understanding of the emerging balance of power in the world and the need to take into account the interests of the backward "periphery" of the world economy was established with difficulty. The hesitation of R.Nixon himself during the October War and the oil crisis of 1973 testify to this. The changes in the nature of the West's relations with its "periphery" did not change the essence of the unequal relations in the "center – periphery" system.

In May 1973, a group of members of the Bilderberg Club gathered in Sweden at the secluded island resort of Saltsjöbaden, owned by the Wallenberg family of Swedish bankers. There were 84 of them, including D.Rockefeller from Chase Manhattan, Lord Greenhill from British Petroleum, J.Ball from Lehman Brothers, H.Kissinger and Zbigniew Brzezinski. The speaker W.Levy, after describing the Arab-Israeli conflict in the Middle East, concluded that military action and an oil embargo were inevitable, followed by a rise in prices and a fivefold, more than 400%, increase in the income of OPEC countries. According to W.Engdahl, using the minutes of the meeting, the purpose of this secret meeting "was not to prevent the expected shock increase in oil prices, but, on the contrary, to plan the management of the

expected influx of oil dollars in the process" – "the secondary processing of petrodollars", in the words of H.Kissinger. "The price of these oil imports will increase many times over, with complex consequences for the balance of payments of consumer countries," H.Kissinger reasoned. "Serious problems will arise in connection with the unprecedented amount of foreign currency accumulated by such countries as Saudi Arabia and Abu Dhabi… A complete change in the political, economic and power relations between the international oil companies of oil-producing and importing countries and the national oil companies of producing and exporting countries is taking place." At the same time, he pointed out that, firstly, the energy crisis will cause a shortage of resources in developing countries, and secondly, the possibility of "misuse and inadequate management of the financial resources of oil-producing countries, which could completely disorganize and undermine the world monetary system" [17:160, 161].

The assembled bankers, industrialists and politicians apparently agreed with the prospect of a world oil embargo and a surge in world oil prices. Since the world oil market had long been dominated by American oil companies, and since 1945 world oil trade had been conducted in dollars, the coming shock meant, firstly, a precipitous increase in demand for dollars needed to pay for oil, and secondly, what Henry Kissinger called "secondary processing of petrodollars", the transfer of oil revenues from oil-exporting countries to the Western financial system, but primarily to the USA. Possible problems for Western European countries and especially for Eastern countries were not taken into account. It may be recalled that a decade and a half before the October War, at the height of the Suez Crisis in November 1956, the USA had already used "financial weapons" against an ally: the acting US Secretary of State Harry Hoover Jr. convinced President Dwight Eisenhower to instruct the US Federal Reserve to "dump the pound sterling on world currency markets at a deep discount" by threatening Britain with a major devaluation of its currency to force them to leave Suez [10:17].

Changes in the Arab camp

In the same May 1973, at a special meeting of the Economic Council, the Kingdom's position on the oil embargo was criticized.

In May 1973, King Faisal in Cairo, during a conversation with A.Sadat, listened to the Egyptian president's reproaches for "insufficient assistance to the pan-Arab cause."

Faisal's position as the Custodian of the Two Holy Places of Islam and at the same time "the best friend of the United States in the Middle East" turned out to be difficult. He was faced with a choice between loyalty to the pan-Arab cause and friendship with the West. Faisal chose the former, but did not betray the latter.

At the end of May 1973, a closed meeting between Faisal and the leaders of ARAMCO took place in the vicinity of Geneva. The King emphasized that he was in favor of expanding ties with the United States, and that Saudi Arabia, respecting the interests of the West, was producing much more oil than was necessary to meet its financial needs. But Saudi Arabia, he said, was now in danger of becoming isolated in the Arab world because of the US government's reluctance to help it. He, Faisal, would not allow that: "You could lose everything."[3] Faisal's words were followed by public statements by ministers Omar Saqqaf and Ahmed Zaki Yamani about Saudi Arabia's possible use of oil as a political weapon. In May 1973, ARAMCO's leadership held talks with the kingdom's top officials, Emir Nawaf bin Abdul Aziz, Ahmed Zaki Yamani, Omar Saqqaf, Rashid Pharaoh and Kamal Adham.

During the meetings, the Saudi side emphasized that the kingdom was currently the only defender of American interests in the region, which, according to them, were being undermined by "Zionism together with the communists." If the Americans were truly friends of the Arabs, they "must do something to change the position of the U.S. government" [19:100]. The chronicle of events in May 1973 is important because it shows the process of transition of bilateral relations to a new basis. The leaders of the Western oil monopolies understood Faisal's real attempts to avoid or mitigate the oil crisis. But it was obviously a pragmatic decision of the Western side to go along with the crisis, the burden of which would fall mainly on developing countries and to a lesser extent on Western European countries, and the final outcome of which would be beneficial to the United States in financial and geopolitical terms.

The main stages of the oil crisis

On August 23, 1973, A. Sadat made a secret visit to Jeddah, during which Faisal promised that Saudi Arabia would use the "oil weapon" if necessary and increase financial aid to Egypt.

The declaration of the Arab countries' intention to use the "oil weapon" only resulted in a warning from the US President on September 6, 1973, about the inadmissibility of further increases in reference prices for oil and the nationalization of the property of foreign companies under the threat of depriving these countries of Western markets for oil and oil products.

ARAMCO began preparing for the inevitable. On September 13, 1973, the heads of four ARAMCO companies received a memorandum analyzing the options for a possible oil embargo.

On October 6, 1973, the fourth Arab-Israeli war began.

On October 17, at a meeting of OPEC countries in Kuwait, it was decided to reduce production by 5% at once and to reduce it by another 5% monthly until a final settlement of relations with Israel based on UN General Assembly Resolution No. 242. At the same time, the Gulf countries decided to abandon the Tehran agreements and unilaterally introduce new price levels based on "market prices", starting with an increase in reference prices by 70-100% depending on the quality of the oil (sulfur content). On October 19, having learned of President R.Nixon's order to provide Israel with military aid in the amount of $2.2 billion, King Faisal decided to stop all oil supplies to the United States and reduce oil production in the country by 10%, following the decision of the OPEC meeting in Kuwait on October 17 [4].

American author E.Wald, describing the events of those days, stated that "there was no conflict within ARAMCO: The Americans and Saudis were on the same side of the barricades. ARAMCO owned everything: wells, pipelines, oil refining facilities, ships – and it controlled all logistics. Saudi Arabia owned only 25% of the shares" [14:178].

In the USA, there were queues at gas stations. Panic arose in Europe. "Attempts to achieve agreements on division between consumers through the Organization for Economic Cooperation and Development or the Organization for European Economic Development failed due to consumers' fears that any joint action on their part would only cause even more extreme measures on the part of the Arabs," wrote English authors K.Tugendhet and A.Hamilton [13:279]. Some countries took measures to limit demand for petroleum products on the domestic market, introducing rationing or banning the use of motor vehicles on Sundays. Oil prices began to spiral upward in Western European oil markets. Producer countries held auctions to sell individual lots of oil, with astonishing results: the prices offered were several times higher than OPEC's reference prices.

Politically, Europe could do little, but it "turned to face the Palestinians." Opportunities opened up for European-Arab dialogue. Immediately after the embargo was imposed, the Japanese government sent Deputy Prime Minister T.Miki and Minister of Trade and Industry T.Komto to Saudi Arabia for talks on economic cooperation [19:113].

According to O.Skorokhodova, "the double salvo of the 'oil attack' – the imposition of the embargo and the fourfold increase in the price of 'black gold' – plunged the world economy into a crisis unprecedented since the Great Depression, the overcoming of which, in fact, continued throughout the decade" [11:50].

Developing countries had a particularly hard time. According to the UN, in 1972 all developing countries, except for OPEC countries, spent $6 billion on fuel imports, and since 1974 they had to pay $30 billion a year for about the same amount, which corresponded to their entire income from agricultural exports [see 13:25]. Grinin and Korotayev wrote about the severity of the 1974-1975 crisis: "This was primarily a global crisis caused by rising fuel prices, but at the same time, the overheating of the economy was caused by internal factors; in many ways, the crisis phenomena were aggravated by currency problems (in fact, the currency and economic crises merged), fears of rising inflation, the pumping of money into the economy... In fact, at the dawn of the 70s, the low level of oil and gas prices, which developed as a result of previous developments, also contributed to the acceleration and overheating of the world economy" [2:173-174].

The oil embargo and the 70% increase in oil prices were caused not only by political reasons, but also by rapid inflation and the devaluation of the dollar. However, OPEC's actions were superimposed on the overheating of the Western economy, rising wages in European countries, the budget and trade deficit in the United States, growing mistrust of the American dollar and the unreliability of the dollar, which sharply increased the volume

3 Vasiliev A.M. King Faisal: personality, era, faith; Russian academician Sciences, Institute of Africa. Moscow: Vostochnaya lit., 2010:396-403.

4 Vasiliev A.M. King Faisal: personality, era, faith; Russian academician Sciences, Institute of Africa. Moscow: Vostochnaya lit., 2010:417-426.

of money in the world [2:173-174]. In the United States and Western European countries, the decline in industrial production and the growth of unemployment intensified, combined with high inflation. By the beginning of December 1973, producing countries began to soften their position on reducing oil supplies. The embargo was lifted for several countries. In March 1974, at a meeting in Kuwait, the oil ministers of Syria and Libya spoke in favor of continuing the embargo. But Faisal was able to push through the end of the embargo for Europe, and in April 1974 – for the United States as well [22:149].

The ARAMCO leaders solved their own problems, using the current situation. At the hearings in the US Senate in January-February 1974, the ARAMCO leaders admitted that after the increase in reference prices, the company's profits increased by 350% compared to 1969. In total, the income of the monopolies participating in the oil cartel increased from $70 billion in 1972 to $192 billion in 1976 [13:17].

In December 1973, at the OPEC conference in Tehran, the OPEC commission proposed setting the price at $23 per barrel, Saudi Arabia at $8, and the Shah unexpectedly demanded a price of $11.65. A quarter of a century later, Yamani, at the request of King Faisal, asked the Shah why Iran had demanded such a price increase. To this, Mohammed Reza replied: "To answer your question, I suggest you go to Washington and ask Henry Kissinger" [17:180]. The Americans simply "left the stage behind the scenes." By January 1974, the 400% increase in oil prices had become a fait accompli, which left many developing countries, as oil importers, facing a huge budget deficit. The IMF was ready to provide loans.

The main consequences of the oil crisis

Not only the Arab plans for changes in the regional system of international relations in the Middle East were implemented in this way, but also the May decision of the Bilderberg Club on closer integration of the leading Arab oil exporters of the Gulf countries into the world capitalist economy.

In February 1975, a bilateral secret agreement developed by the US Treasury and the Saudi Monetary Agency, which performs the functions of the central bank, was officially approved, according to the terms of which Saudi excess revenues from oil sales were to be "largely invested in paying off the deficit" in the US government budget. It is significant that the banker D.Mulford from a London bank was appointed as an investment adviser to the Saudi Monetary Agency [17:166].

In June 1974, President R.Nixon visited Saudi Arabia and stated that the American-Saudi friendship "is now developing into an active partnership." Later, G.Kissinger explained the thesis on partnership as follows: "We are natural partners, not adversaries. Consumer countries must have reliable access to supplies of oil at reasonable prices. In order to invest their new wealth acquired thanks to oil, oil-producing countries must become active participants in the global financial and economic system; in order to turn their new wealth into goods, they must become major importers of our products. We are ready to cooperate with the countries of the Near and Middle East, linking our economies and their economies on equal terms" [see: 17:111].

The oil embargo served as an accelerator of technological change (increased efficiency of hydrocarbon use, transition to alternative and renewable energy sources) for Western countries, for Japan, which felt its dependence on external supplies of energy raw materials especially acutely.

What was perceived as the weakness of the West, its retreat in the face of the threat of oil-producing countries of the Arab East to stop supplies, was in fact a multi-move geopolitical game, had hidden meanings that were revealed later.

For the oil industry, the retreat of the West in the person of global oil monopolies meant the transformation of these monopolies, a change in relations and structure, the transformation of monopolies from absolute managers into obedient operators, as well as the transformation of the oil companies themselves into financial and industrial conglomerates. Thus, the result of the events of 1973 was not only a change in relations between oil producers and consumers, but also an internal transformation of TNCs.

Both sides benefited from the conflict. After all, oil will remain a commodity of constant and stable demand on the world market for the next ten to fifteen years, despite all its price fluctuations.

Table 2. The volume of oil reserves in the leading oil producing countries in 2023 (billion barr.)

Canada – 168.1	Saudi Arabia – 297.5
Russia – 107.8	Iran – 157.8
USA – 68.8	Iraq – 145
Venezuela – 303.8	Kuwait – 101.5 Libya – 48.4

Source: Oil Reserves by Country. World Population Review 2023. [Available from]: https://countrycassette.com/list-of-countries-by-oil-production-2023/

Less attention is paid to the impact of the oil crisis on the strengthening of the role of the state in the economy and public life of the oil monarchies, and partly in Western countries.

After all, in the 1970s, during modernization and industrialization in Arab society, disorientation and nostalgia for the past arose, which was disappearing before our eyes. The result was a tendency toward "dirigisme" of the state in the economy and statism in public life, strengthening of centralized control, strengthening of the state, which seemed to contradict the Western model of a market economy taken as a normative model during modernization. It seemed that the very logic of industrialization required decentralization of economic power, which affected not only the oil sector, but also the planning and regulation of the entire national economy.

But the basis of a strong state in Arabia was the tribal (communal) principle, and this prevented the implementation of the Western model of a modern, democratic and cosmopolitan society in the sphere of cultural and religious life. The state, or rather the ruling family, regained the role of the only or main source of resources thanks to increased oil revenues. The distribution of oil revenues became the most important factor in political and social life, not just economic. This consolidated the communal-tribal principles of social and political organization of society. Thus, the product of the scientific and technological revolution and progress – the oil weapon – turned into a socio-political rollback, but "back to the future", which is no longer built on the Western model, although on market principles.

Saudi Aramco's initial public offering in November 2019 shows a new trend – increased attention to privatization, which affected even this supercompany, the backbone of the public sector. True, only 1.5% of the shares were put up for sale at an initial price of $8.5. But they were bought up (mainly by members of the ruling family, large entrepreneurs, funds from Kuwait and the UAE) at a price of $9.4, thanks to which $25.6 billion was received. The market capitalization of Saudi Aramco from the initial level of $1.7 trillion reached $1.88 trillion [4:296]. These days, talk about the "dissolution of the state" and the performance of its functions by global TNCs and public associations has almost disappeared. Such prophecies of K.Schwab have not yet come true. On the contrary, in the third decade of the 21st century in the West the increasing role of the state is becoming obvious, first of all – in economic life as a regulator of economic processes, in public life as its active participant. Indicative is K.Schwab's silence about the subject of the Technological (Fourth Industrial) Revolution and its beneficiary [15]. The experience of the oil crisis of 1973 clearly showed that the process of change in the world economy can be cleverly used by groups of the world elite to obtain benefits for themselves, which, of course, does not exclude the receipt of benefits by other persons.

Discussion

In this part of the article, we will assess the impact of the oil crisis. The crisis brought expected and unexpected consequences for all its participants, some of which turned out to be long-term and global. As I.Makarov and M.Chupichkin rightly noted, "the oil shock became not so much the root cause as the catalyst for change" [7:38].

The Arabs were able to become real masters of their oil when Western companies transformed from owners into operators. Dependence on the West remained, but its nature changed. Forecasts about the transformation of the world oil market into a "sellers' market" dictating their terms to consumers did not come true. Western monopolies still own oil production technologies, the world's main refining and petrochemical capacities, the tanker fleet and the distribution network. The need to include Arab countries in the complex network of the oil market has significantly complicated their relations with the West, giving them the character of an unequal, but partnership. The obvious success of the Arab countries was their acquisition of a new, independent place in world politics. It is no longer possible to ignore not only OPEC, as later OPEC+, but also the political course of Saudi Arabia and the UAE, Iraq and Algeria. The faith of the Eastern countries in the omnipotence of the West has been finally undermined.

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The rapid process of wealth redistribution itself was indicative after the sharp increase in oil revenues in the Arab countries, which opened up new opportunities for them. Saudi Arabia, Kuwait and the UAE immediately responded to the IMF's call to increase their contributions. The OAPEC countries created the Arab Fund for Economic and Social Development, modeled on the IBRD, a special fund to provide interest-free loans for 20 years to Arab countries that suffered from rising oil prices (Mauritania, the YAR, the PDRY, Somalia, Sudan, Morocco, Lebanon, Jordan). Already in the second half of the 1970s, on the initiative of the Gulf oil monarchies, various Arab banks and financial funds emerged to help implement agricultural and industrial projects in Asian and African countries, the largest of which was the Islamic Development Bank with a capital of $2 billion [18:352]. This is how the "oil diplomacy" of the Arabs was formed. And this success overshadowed the failure to achieve the main goal of the oil embargo – the resolution of the Middle East crisis and the Palestinian problem. Instead of a regional settlement, separate agreements with Israel, Egypt, and then Jordan came. The consequences of the oil crisis increased the economic and political differentiation of the Arab countries. Petrodollars allowed the oil monarchies of the Persian Gulf, Iraq, Algeria and Libya to begin large-scale socio-economic transformations, and a period of rapid development began in these countries. In countries deprived of large oil reserves, this turned out to be impossible. The relative unity and recognized hierarchy of the Middle Eastern system of international relations, led by Egypt, were replaced by processes of regionalization and fragmentation of the Arab world, the results of which are obvious today.

The so-called "oil curse" of oil-producing countries has become widely used to support the opinion that their development is at a dead end. But is this true? For countries with large populations and low levels of national economic development, oil production and oil exports have indeed become the basis for development and have not provided an opportunity for economic restructuring. For the oil monarchies of the Gulf, with small populations and capital-excessive development, the oil sector has become the basis for the development of processing industries, and the income from it has allowed for the development of infrastructure and the "tertiary sector". But in both cases, oil income was not a "curse" but a "safety cushion", guaranteeing revenues to the state budget. Iran's experience in recent decades clearly demonstrates this. For Western countries and the United States, the 1970s became, in the words of N.Zulkifil and D.Hakim, "decades of pessimism", "reminiscent of the years of the Great Depression" [27:137]. The era of prosperity, two decades of continuous economic growth and social prosperity in the West, had ended. But the problems and difficulties of the "consumer society" were on the surface. Structural changes in the Western economy and financial system began. The Bretton Woods system was replaced by the Jamaican currency system; in 1976, the IMF officially abolished the gold standard, and floating exchange rates became the new norm. In 1974, the International Energy Agency (IEA) was created to coordinate energy policy. The familiar model of industrial economy of mass production and mass consumption, based on cheap energy, was being replaced by a different model.

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The technological restructuring of the Western economy that began after the events of 1973, starting with energy conservation policies and ending with the development of alternative fuels to hydrocarbons, purposefully and steadily led to a relative reduction in oil and gas consumption, although they remain essential energy sources in the first decades of the 21st century (along with coal). Theку was the sharply increase in natural gas consumption in the United States and Western Europe that began in the late 1960s. For example, in Germany, the share of gas in total consumption increased from 16 to 54% from 1960 to 1970. The increase in prices for imported oil stimulated the high-cost gasification of coal and the extraction of shale oil in the United States [18:13, 30]. The "age of power" of the Arab oil countries turned out to be short.

The energy transition process may accelerate or slow down, but its irreversibility is undeniable. In the first decades of the 21st century, demand for Arab oil fell sharply due to the economic and financial crisis and the COVID-19 pandemic; excess oil supply led to a drop in oil prices. The development of oil refining and petrochemicals is becoming an urgent need for oil-exporting countries [see 6:29-31]. In Kuwait, the UAE and Saudi Arabia, far-sighted rulers already intensified their attention to the problem of diversifying their economies in the late 1970s (unlike the leaders of the USSR; in those years, the country was "hooked on the oil needle," as Western journalists put it). The goal of diversification was consistently set in each five-year plan, and although its implementation was slow, the share of oil in the country's GDP was declining. In 2016, Emir Mohammed bin Salman spoke about the kingdom's most important problem – its dependence on oil exports: "We cannot allow our country to be vulnerable to the volatility of commodity prices or the situation on foreign markets," since Saudi Arabia is "morbidly dependent on oil." Meanwhile, the Emir pointed out, "King Abdul Aziz and the people who served him founded the kingdom without dependence on oil, they ruled this state without oil and lived in this state without oil" [cit. in: 4:282].

One thing has remained unchanged for the kingdom: its dependence on the United States thanks to oil and petrodollars. Of course, there have been many political conflicts between the countries over the past two decades (for example, the events of September 11, 2001., the murder of journalist Jamal Khashoggi) and economic conflicts (the transformation of the United States into a competitor to Saudi Arabia thanks to shale oil). But the two countries have strong relations in the financial and military-technical spheres. Hundreds of billions of Saudi petrodollars are invested in the US financial system and various real estate objects, in the industrial sphere. For example, the largest oil refinery in the US belongs to Saudi Aramco, Saudi companies own other enterprises. Almost all weapons systems and military infrastructure in the kingdom are from the US. And this cannot be changed overnight. The experience of the 1973 oil crisis demonstrated the high degree of flexibility of Saudi policy in relations with the West in order to achieve its goals and maintain its comfortable position in the world system.

After the oil crisis, the West lost its complacent confidence that there would always be large volumes of oil flowing from the Middle East. As E.M.Primakov noted, "the era of cheap oil is over" [18:165].

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A new trend should be noted – "the globalization of energy demand" (Yergin). As the economy and people's incomes grow, so does the demand for energy. The obviousness and importance of energy security in the broad sense became apparent in the fall of 1973.

Nowadays, when global structural changes are changing the foundations of material production and consumption, an idea is proposed that requires raw materials and energy. However, K.Schwab's forecasts about the dominance of "breakthrough technologies" and the "transformation of the physical world" [15:18, 90] seem to be an exaggeration. In our material world, which includes not only North America and Western Europe, but also Asia, Africa, Latin America, with rapidly growing needs of huge masses of people, we cannot do without modern agriculture, factories and plants, transport and housing and communal services, and all this requires providing increasing and stable volumes of energy resources, which in the medium term can only be provided by oil and gas.

Conclusion

The experience of the 1973 oil crisis comes to mind when comparing the chronicle of current events in the world with the events of half a century ago.

Today, there is a full-scale global crisis. Its main cause is the strengthening of the non-West, which means the end of 500 years of Western domination. A real alternative to Western, American domination has emerged.

Of course, no one wants to give up their advantageous position as "king of the mountain". The result of the crisis is a change in the world economy and world politics. The parties in the confrontation use both military force and economic pressure, on the one hand, and economic and political actions, on the other. At the same time, both sides are ready to make concessions; no one wants the crisis to become radical.

Thus, in the 1970s, the United States did not dare to use military force against the Arab countries, although Henry Kissinger admitted the possibility of dividing Saudi Arabia into four parts, and the American 82nd division was practicing an operation to land troops on the sandy coast. They were held back by the danger of a collapse of the world market. We see a similar situation now.

True, the former "oil – money – power" link has long since disintegrated into its individual components. In the conditions of a changing world order, Arab countries that possess oil and money, or only oil, have come out from under the American "umbrella" and are ready for equal cooperation. In today's problem-ridden global world, everyone is doomed to cooperation. The BRICS countries offer the values of equal coexistence to replace the competitive-conflict mentality, and respect for civilizational values to replace ideological extremism. The countries of the East, and of course the Arab countries, are interested in a solution to existing problems that is beneficial to them and the establishment of a world order that is convenient for them. Hence the combination in their policy of visible radicalism and secret agreements with active world players, for example, on the issue of using dollars as a means of payment for oil. It can be said that the oil crisis of 1973 served as one of the rehearsals for the global transformation of the world system.

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