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The 1973 Oil Embargo and US-Saudi Relations: An Episode in New Imperialism

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GLOASSARY

Aramco
Arabian American Oil Company.

Absorption Capacity
Maximum amount of capital a given economy can handle.

House of Saud
Ruling royal family of Saudi Arabia, which maintains absolute control in the Kingdom.

JECOR
US-Saudi Arabian Joint Economic Commission.

JSCOR
US-Saudi Arabian Joint Security Commission.

KSA
Kingdom of Saudi Arabia.

OPEC
Organization of the Petroleum Exporting Countries.

OAPEC
Organization of Arab Petroleum Exporting Countries.

Petrodollar
A unit of currency earned by a country from the export of petroleum.

PLFP
Popular Front for the Liberation of Palestine.

Posted Price
Average price that serves as a benchmark for a commodity.

Seven Sisters Seven largest oil companies that dominated the market between the 1940s and 1970s.

Swing Producer A commodity supplier with enough spare production capacity to influence market prices with minimal internal cost.

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Introduction

On October 14th 1973, eight days into the October War, Henry Kissinger sent a telegram to King Faisal of Saudi Arabia, informing him that the US had been resupplying Israel with arms to counter the Soviet's "massive airlift" to Egypt and Syria. The King responded:

> "We do care very much about the continuation of our friendship with the United States [but we] wish that those responsible…would realize the seriousness of [this] step and that the continuation of the American stand on the side of Israel will expose our relations to [being] lukewarm."[1]

While Faisal (r. 1964-1975) had long opposed "Zionist rule"[2] in Palestine, by the early 70s he worried that cooperation between the US and Israel would embolden Arab socialists and endanger the stability of his own US-backed regime.[3] While Kissinger tried to justify US intervention in terms of communist containment, the King believed it was American support for Israel that provoked Soviet encroachment in the Arab world—not the other way around.[4] Thus, when President Nixon requested $2.2 billion worth of "Emergency Security Assistance for Israel from Congress," just two days after receiving Faisal's warning, the King was sure to respond with more than a cautionary telegram.[5]

The next day the Saudi government announced, "in view of the increase of American military aid to Israel, the Kingdom of Saudi Arabia has decided to halt all exports to the United States of America."[6] While Libya and the UAE had already imposed oil embargos on the US to aid in the Arab war effort, shortly after the world's largest exporter, Saudi Arabia, took a stand, the rest of the Arab oil producers quickly followed.[7] Over the next five months, the embargo and resultant quadrupling of the price of oil wreaked havoc on oil-consuming economies, sowed division in the Atlantic Bloc, and bestowed unprecedented amounts of wealth and power upon Arab oil producers.

For these reasons, Eric Hobsbawm marked the oil crisis as a turning point between the post-war "Golden Age" of Western capitalism and the "Crisis Decades" of the 70s and 80s.[8] In *Crude Awakening*, Steve Yetiv argues, "the embargo…represented perhaps history's biggest peaceful transfer of wealth from industrialized states to developing ones…[it] clashed directly with a central objective of OPEC…the pledge to achieve order and stability in the international oil market."[9] Indeed, rather than preserve stability, the former Secretary General of OPEC, Fadhil al-Chalabi described the oil embargo as "representative of a fundamental shift in power relations between oil producers and consumers."[10] By 1973, the embargo's success in empowering Arab oil producers and enervating Western consumers provoked Kissinger to exclaim, "We are now living in a never-never land in which tiny, poor, and weak nations can hold up for ransom some of the industrialized world."[11] For officials of those "weak nations," however, the embargo was cause for celebration. In October, Yamani declared, "The moment has come. We are finally masters of our own commodity."[12] For his role in orchestrating the embargo, King Faisal is remembered as a "symbol of defiance in the eyes of many Muslims."[13]

Despite the political and economic significance of the 1973 oil embargo, this thesis explains that it did not go so far as to elevate the Saudis to a position of complete mastery over their Kingdom. While the embargo empowered the KSA economically—by inflating oil prices and facilitating their takeover of Aramco—and politically—by pressuring the US to change its stance on the Arab-Israeli crisis—the embargo simultaneously deepened the KSA's dependence on the US. Just as the House of Saud had relied on foreign arms, capital, and skilled labor since the beginning of its consolidation of state power, after the embargo, the regime came to depend on heightened levels of US support for security, economic development, and investment management.[14] Just five months after the embargo was imposed, on March 18th the KSA lifted sanctions on the US—prior to the realization of the embargo's original demands: the return of all the Arab territories occupied during the Six-Day War and the restoration of Palestinian rights.[15] In the following weeks, the Kingdom invested billions of fresh petrodollars in US coffers.[16] Rather than dismantling Saudi dependence on the US, the embargo served to further the development of new imperial relations between the two states by increasing the stakes of America's access to Saudi oil, on the one hand, and heightening the KSA's dependence on arms and capital management, on the other.

While prior scholars have advanced general frameworks for understanding the US-Saudi "special relationship"[1] during the Cold War,[17] fewer have analyzed its transformations during discrete periods—as this thesis attempts to do with respect to the 1973-1974 embargo. Those scholars that focus on the embargo, such as Daoudi, Dajani, and Yetiv, tend to overstate its negative impact on US-Saudi relations.[18] Scholars who take the long-durée approach, such as Madawi al-Rahseed, on the other hand, often brush over the embargo as a token measure to quell radicalism, but stop short of unpacking its complex aims and outcomes. In Rasheed's *History of Saudi Arabia*, which spans three centuries, the embargo is summarized as, "rhetoric of confrontation…[which] masked a partnership that had been developing behind the scenes."[19] This position places Rasheed in a long line of scholars who describe US-Saudi relations as something like a "balancing act": the KSA aligned with the US out of existential necessity, but distanced itself for fear of inciting anti-imperial dissent.

[1] "Special Relationship" is an unofficial IR term used to describe close political, economic, and military ties between two countries, originally used in reference to the US

Gregory Gause III, who first coined the term "balancing act" in reference to US-Saudi relations, argues that the US and KSA came together throughout the Cold War due to the former's policies of containment and the latter's opposition to "atheist communist doctrines."[20] While the US saw the KSA as a vital bulwark against communism in the Persian Gulf—due to its oil wealth[2] and strategic location along the southern flank of the USSR—the KSA saw the US as a strong ally in its perennial "Search for Security."[21] On the other hand, Gause explains, the Saudis periodically tempered relations with the US in order to pacify internal and external anti-imperial threats. Thus, while the Saudis at times relied on the US for security, the visibility of reliance also jeopardized their stability.[22] While Gause's approach is powerful in its descriptive flexibility over long periods of time, it ultimately reduces the 1973 embargo to just one of many attempts by the Saudi monarchy to "modify and control the political behavior of the radical Arab states."[23]

This thesis takes the position that the embargo neither ruptured nor masked ties between the US and KSA, but facilitated the development of a new imperial relationship. Accordingly, it draws on both scholarship that sees continuity in US-Saudi relations throughout the Cold War and that which highlights the ruptures produced by the 1973 oil embargo. For the US, this thesis argues, the interrelated political and economic repercussions of the embargo directly contributed to the notion that "closer US-Arab ties were needed."[24] Specifically, by raising global oil prices, upsetting Western Bloc alliances, and risking the spread of communism around the globe, the embargo heightened the stakes of America's access to the world's largest petroleum producer. While political, economic, and military cooperation with the Kingdom became instrumental to

[2] Arab oil was integral to the reconstruction of Western Europe and Japan.

ending the embargo, the lifting of the embargo was not an end in itself, but a means to lowering oil prices and preventing a downward spiral for non-communist economies.

For the Saudis, the embargo not only enriched their Kingdom, but made it more vulnerable to instability. Indeed, the windfall gains from oil price increases enlarged not only Saudi reserves, but those of its oil-producing foes in Iraq and Iran. Equally, newfound oil wealth exceeded the bounds of what could be invested in the KSA's domestic economy and warranted outside capital management. Though there was nothing inevitable about the KSA's continued reliance on the US, the superpower leveraged its military and economic superiority to coopt the Saudi government.

Ultimately, this thesis argues, the embargo represented neither a complete termination nor continuation, but rather an alteration of what many have called an "imperial" relationship between the US and KSA.[25] While the embargo gave more autonomy to the Saudis with respect to their oilfields—the classic locus of imperialism—it simultaneously deepened the KSA's "new imperial" dependence on American security, non-oil economic development, and financial institutions.[26] Specifically, while the US-Saudi relationship, prior to the embargo, was characterized by the impingement on Saudi sovereignty by a *transnational firm*—insofar as the latter leveraged its dominant access to capital, labor, and knowledge to expropriate the former's oil, as Samuel Huntington and others have noted[27]—after the embargo, the *US government* capitalized on the military and economic insecurity of the Saudi state and retained access to the resource its transnational corporation lost. The embargo, therefore, directly contributed to the formation of a new imperial relationship by exacerbating the Saudi government's need for outside support, on the one hand, and raising the stakes of the US government's access to Saudi oil, on the other. To better understand the nuances of this new imperial relationship, it will help to compare some of the ways other scholars have employed the term imperialism and then delineate between classical and contemporary definitions.

In *A House Built on Sand*, Helen Lackner argues, "unlike other Third World countries, Saudi Arabia is rich: its oil revenues are astronomical and it therefore need not be dependent on imperialism for investment capital, though it remains dependent for the importation of technology and labour."[28] Here, Lackner refrains from labeling the KSA as a full-scale imperial subject on par with other "Third World" states because it is not dependent on foreign capital. This conception of US-Saudi relations falls short not only because it neglects Saudi dependence on US arms and capital management, but because it wrongly prioritizes the absence of capital as a constituent of imperial subjugation. In the latter respect, Lackner's definition of imperialism draws a direct line from Lenin's text, *Imperialism, the Highest Stage of Capitalism*.

For Lenin, imperialism was "the domination of finance capital…over all other forms of capital…it means that a small number of financially "powerful" states stand out among all the rest."[29] This definition is similar to Lackner's insofar as they both emphasize capital dominance as a constituent of imperialism. Though there is nothing objectively wrong with this conception, if taken to its logical extension in the Saudi case, far from describing the Kingdom as an imperial subject, one would have to denote it as an imperial power in and of itself. After the embargo, indeed, Saudi petrodollars attained such a dominant position in the international monetary system that they not only reinforced, but benefited from American monetary hegemony.[30] Accordingly, this thesis does not define the US-Saudi relationship as neo-imperial[3] for its lack of symbiosis, but because the Saudis depended, in part, on the US to manage their wealth to a

[3] For purposes of this thesis, neo-imperial and new imperial are used interchangeably.

greater degree than the US depended on access to Saudi petrodollars [chapter 3]. The question of whether or not the KSA can itself be described as an imperial power—due to its petrodollar dominance over other states—exceeds the bounds of this thesis.

Moving on, Fred Halliday's description of the US-Saudi relationship echoes some of Lackner's arguments, but offers an important distinction about the "imperial" intentions of the US government. In *Arabia Without Sultans,* Halliday argues, "Unlike other clients in the third world, Saudi Arabia was not in need of financial aid: it had enough money from the oil revenues provided by Aramco, and the US government was willing to encourage greater Saudi revenues as large-scale capitalist development benefited imperials."[31] The focus on US intentions differs from Lackner insofar as it prioritizes access to foreign markets over capital dominance. This emphasis places Halliday on the other side of a classic debate between critics of imperialism.

One of Lenin's contemporaries and challengers, John Hobson argued, "[imperialism] implies the use of the machinery of government by private interests, mainly capitalists, to secure for them economic gains outside their country…to secure and develop at the public expense and by the public force private markets for their surplus."[32] Like Halliday, Hobson prioritizes markets over capital, while Lenin and Lackner emphasize capital dominance. Once again, the former conception of imperialism cannot be said to be incorrect in all cases, but falters in its application to the US-Saudi case. This thesis argues that the US government did not encourage new imperial development in the KSA for the benefit of industrialists, but to "bring oil prices down" [chapter 3].[33] Indeed, if the US truly sought to "encourage greater Saudi revenues" for the benefit of its "imperials," one might go so far as to say that the Nixon administration encouraged the oil crisis. Because there is scant evidence for this interpretation, this thesis adopts the term new imperialism to encompass imperial relations outside the realms of markets and capital.

Ultimately, this thesis avoids the classical definitions of imperialism alluded to by Lakcner and Halliday because it seeks to describe a situation in which the US state advanced its economic interests in another sovereign state without coercion. Theorists like Lenin and Hobson, on the other hand, argued that the "machinery of government," namely the military, was responsible for facilitating imperial expansion into other "territories." For this reason, a contemporary wave of scholarship on "The New Imperial State" has argued, "The word imperialism is out of fashion"; "What is emerging is a non-territorial empire with its imperial capital in Washington, D.C."[3435] As Peter Gowan explains, "the distinctive feature of American expansion, in contrast to the west European juridical empires of the first half of the twentieth century, has been the attempt to use the international system of sovereign states as a mechanism of American global dominance."[36] Thus, rather than directly impinge on the sovereignty of the KSA, in the case of US-Saudi relations, the US capitalized on the interests of the KSA to advance its new imperial agenda [chapter 2].

With both classical and contemporary definitions of imperialism in mind, it can now be made clear that the US government never played a classically imperial role in the KSA. Instead, the pre-embargo US-Saudi relationship is more akin to what Samuel Huntington describes as transnational "penetration."[37] Although the penetration of Saudi oilfields by Aramco was certainly contingent on the political union between the US and KSA—especially in the 60s and early 70s [chapter 1]—it did not require the imposition of US sovereignty on Saudi sovereignty; it was, rather, a consensual and symbiotic, albeit unequal, concessionary system between a government and a transnational firm. The role of the US government was not only practically removed from the advancement of Aramco's penetration, but also discouraged. In 1947, when the executive branch of the US government proposed buying equity in Aramco—like the British had done with British Petroleum—the United States' Congress blocked it due to its imperial overtones.[38] None of this is to say that governmental influence was absent from the KSA—indeed, the Saudis consistently ordered arms from the US government—but more to say that Aramco was the United States government's main conduit to the Kingdom—not the other way around. In this way, what some have curiously described as imperial prior to the embargo was, in reality, neither classically imperial, nor hardly neo-imperial.

After the embargo, when the KSA grew empowered to take control of Aramco, only then did the *US government* take a more active role in facilitating the expansion of its *transnational firms* by engaging the House of Saud in more overt forms of government-to-government interaction. The Joint Commission on Economic Cooperation, singed just weeks after the embargo's termination, was an important case in which the American and Saudi governments agreed to have American public institutions and private firms develop the latter's economy in exchange for petrodollars [chapter 3]. In this case, the US government represented a new imperial power insofar as it implemented non-coercive measures to secure non-territorial access to Saudi oil in the form of indirect control over oil prices.

Ironically, this development in the US-Saudi relationship represents an almost complete reversal of what many have described as a progression from statist autarky to "end of history" neoliberalism, a process that deterministically ends with the death of the nation state and the birth of the free flow of goods and capital.[39] US-Saudi relations, on the other hand, can perhaps be best described as neoliberal prior to the embargo—insofar as Aramco was an "invisible empire," relatively autonomous from both the US and Saudi governments—and neo-imperial after the embargo—insofar as the Joint Commission on Economic Security represented a retrenchment of, namely governmental, relations between the US and KSA.[40]

Chapter one of this thesis traces the US-Saudi relationship in the lead-up to the embargo. It begins by exploring a previous and failed embargo attempt in 1967. In the 60s, the KSA was enmeshed in an "Arab Cold War" that undermined its stability and demanded reliance on US and British support. The US economy, on the other hand, was relatively independent of Saudi oil. Thus, chapter one argues, the 1967 embargo was neither *motivated* by genuine opposition to the US—but pressures external to the Saudi regime—nor *resulted* in significant opposition to the US—because of its symbolic and material harmlessness. Because the US was largely independent of Saudi oil, the 1967 embargo resulted in the weakening of embargoing countries rather than those embargoed.[41] Over the next six years, chapter one concludes, increased demand for oil would heighten the industrial world's dependence on Arab producers and increase the feasibility of another embargo. Decreased political pressure on the Saudis, moreover, rendered their opposition more personal and impactful.

Coupling sincere intent with severe impact, the "oil weapon" of 1973, as it came to be known, resulted in reshaping US foreign policy. Chapter two explains that the US reacted to the embargo by taking the political demands of Faisal seriously and brokering bilateral disengagement agreements between Arab-Israeli belligerents. Equally, the embargo ushered the KSA into a new, uncertain position of economic and political power. While the change in US foreign policy decreased the Saudis' political opposition to the US, the changes in the KSA's military and economic position heightened its dependence on outside support. Consequently, the embargo was lifted five months after its imposition, prior to the realization of its original demands: the return of Israeli-occupied territory and the full restoration of Palestinian rights.

If the economic and political strains caused by the embargo encouraged the US to seek closer political alignment with the KSA, chapter three argues, the consequent oil wealth surpluses and political power in the KSA called for closer union with the US. Following the embargo, the primary problem for the US became high oil prices. To ensure that the KSA continued to produce an abundance of oil at reasonable prices, therefore, the US encouraged higher Saudi budgetary expenses for arms and economic modernization. The KSA realigned with the US for these purposes due to the latter's military and economic superiority in the non-communist world; additionally, the US leveraged advantageous "add-on" arrangements to attract Saudi petrodollars directly into the US Treasury. Finally, this thesis concludes, the economic and political ruptures produced by the embargo encouraged the US and KSA to enter a new imperial relationship and sign two new government-to-government contracts for economic and military union.

Chapter 1

The US-Saudi Relationship On the Eve of the Embargo

On May 14th 1967, after receiving false Soviet intelligence that Israeli troops had mobilized on the border with Syria, Gamal Abdel Nasser, Egypt's Arab Socialist president, sent his own troops to the Sinai Peninsula.[42] Two weeks later, on the morning of June 5th, the Israeli Air Force launched surprise attacks on 18 Egyptian airbases, destroying over 400 Egyptian, Syrian, and Jordanian aircrafts. The next day, King Faisal held a rally in Riyadh, the capital of Saudi Arabia. The King exclaimed, "Saudi Arabia will cut off the flow of oil to anyone who aids Israel."[43] Because rumors had spread that the US and British resupplied Israel, the crowd responded with two words, "Nasser and petrol!"[44] In *Philosophy of Revolution*, Nasser argued that Arab oil should be mobilized in the fight against imperialism.[45] After nationalizing the Suez Canal in 1956, Nasser's pan-Arab propaganda spread throughout the Middle East and, by the time of the Six-Day War, was spilling over into the Saudi Kingdom. Though, in reality, the US and Britain denied aid to Israel when the Six-Day War broke out, hardly anyone believed it.[46] A day after Faisal's rally, strikes erupted at Aramco's headquarters in the Eastern Province of Saudi Arabia. The King had no choice but to stop the flow of oil.

Distinct from the 1973 embargo, the 1967 embargo was less rooted in Faisal's opposition to the US and more rooted in immediate existential necessity. In 1967, in fact, the King had perhaps more issues with Nasser than the US. Faisal relied on US arms and Aramco's oil rents while he had been fighting a proxy war with Nasser in Yemen for the past five years. Indeed, the latter conflict preoccupied Faisal's coercive apparatus to the point where he was vulnerable to an upsurge in domestic dissent.[47] Thus, Faisal was not only reluctant to impose the embargo for fear of alienating the US, he did not want to directly fuel Nasser's power. Saudi Arabia's Oil

Minister, Shiekh Yamani, for his part, worried that an embargo would have a “serious impact” on Arab economies. Just days after the cessation of oil production, Yamani calculated the Kingdom to be losing $10.5 million of revenue per day.[48] In addition, Yamani had a gauge on the oversupplied international oil market to the point where he knew any decrease in Arab oil production would simply result in increases in Texas, Venezuela, and Iran.[49] In retrospect, these factors rendered the 1967 embargo not only innocuous to its targets, but counterproductive.

Once the Six-Day war came to an end—resulting in severe losses of life and land for the Arab frontline states[4]—Saudi Arabia immediately tried to get the embargo lifted. Meeting in Kuwait on June 18th, “reactionary” states like Saudi Arabia, Kuwait, and Libya advocated for a total resumption of shipments to the US and Britain, while “revolutionary” states like Egypt, Syria, Iraq, and Algeria wanted to maintain stoppages on the grounds that it would raise global prices and undermine imperialist economies.[50] Yamani, for his part, invoked the history that Iran had lost significant market shares as a result of halting exports during the nationalization dispute of 1951. In compromise, the delegation agreed to uphold the embargo against the US and UK only. Six weeks later, as Egypt and Syria grew increasingly desperate for post-war economic aid, they agreed to terminate the embargo in return for loans.[51] Consequently, Nasser evacuated the last of his troops from Yemen.[52] Just three months after its implementation, the 1967 oil embargo ended without any negative impact on the US-Saudi relationship. To the contrary, the KSA was able to “stand alone” in its support for the US, as Faisal remarked later.[53]

This chapter moves beyond the 1967 embargo to explore how changes in the international oil market and political atmosphere in the Middle East—between the Six-Day War and October War—converged to render Faisal less dependent on the US and more able to assert

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[4] Israel expanded into the Sinai Peninsula, Golan Heights, West Bank, East Jerusalem, and Gaza.

control over Saudi production. Though Israeli expansion during the Six-Day War provoked further radicalization in the Arab world, it also spelled the decline of Nasser, Faisal's largest threat. As the global demand for oil began to outpace supply, moreover, the KSA was able to assert more control over its oil fields—without risking any negative economic impact. With these changes, a large and visible American stand on the side of Israel during the next outbreak of hostilities would prompt a momentous reassessment of US-Saudi relations.

Between the Wars

While many scholars mark the Six-Day War as the end of Nasser's Arab nationalism in the region, the expansion of Israel into Egypt's Sinai Peninsula, Syria's Golan Heights, and Palestine's Gaza and the West Bank provoked further anti-imperial radicalization in the Arab world.[54] In July 1968, the Arab nationalist Baath party launched a coup, overtaking Iraq, and a leftwing revolution overthrew a conservative monarchy in Libya in September 1969. The USSR, for its part, began resupplying Egypt, Syria, and Iraq immediately following the war. To the north of Saudi Arabia, Palestinian refugees began pouring into Jordan, conducting guerilla warfare against King Hussein's regime under the banner of the Fedayeen and the Popular Front for the Liberation of Palestine (PLFP).[55] In the Golan Heights, the PLFP sabotaged Saudi Arabia's largest pipeline, Tapline, in direct opposition to its sale of oil to reactionary powers after the Six-Day War and the Syrian government blocked its reconstruction for eight months. Influenced by these movements, the Socialist Labor Party in the Arabian Peninsula began conducting its own anti-imperial organizing in Saudi Arabia.[56]

To the south of the Kingdom, the situation in North and South Yemen continued to worry Faisal. Facing balance of payments problems, the British evacuated from South Yemen and the grater Gulf region, leaving the region vulnerable to Marxist movements, which spread from Aden in Yemen to Dhofar in neighboring Oman.[57] In South Yemen, an Arab Nationalist government took power in October 1967 with the express purpose of founding "a base for all the revolutionary movements in the heart of the Arabian Peninsula so as to destroy the Faisal monarchic regime in Saudi Arabia."[58] Ultimately, just as Nasser had once argued, "King Faisal's danger is that he represents foreign powers hostile to the Arabs," the new radical movements in the Arab World denounced Faisal's collusion with "imperialism."[59]

While the rest of the Arab world blamed the US and Britain for empowering Israel in the Six-Day war, and credited the USSR with supporting the Arab cause, Faisal believed, "[Zionism and communism] only pretend to oppose each other."[60] Throughout his "Arab Cold War"[61] with Nasser, the King had directly countered Nasser's propaganda by arguing, "revolutionary states have bound their destiny to…communism represented by the Soviet Union.[62] He denounced communism further by arguing, "[it was] founded by the Zionists…[and] seeks to deny the existence of God."[63] By appealing to religion, Faisal was able to condemn the USSR's encroachment in the Arab world while ignoring his own complicity with outside powers. Indeed, King Faisal frequently invoked the KSA's position as the protector of Islam's holiest cities, Mecca and Medina.[64] At the first pan-Islamic conference in Mecca in 1962, the attendees concluded, "those who renounce Islam and distort its appeal under the guise of nationalism are in reality the worst enemies of the Arabs."[65] Thus, rather than see the world in terms of imperial states and subjects, Faisal's ideology carved the globe into those religious and those not. Because Americans were *Ahl al-Kitab* ("People of the Book," i.e. Christians), Faisal praised them for their moral obligation to the "entire free world—including the Muslim world."[66]

For these reasons, the KSA remained close to the US during and after the Six-Day War. To protect himself from the new threats in the region, the King expanded his defense budget by more than $2 billion between 1970 and 1971, singing a series of joint arms deals with the British and US.[67] These purchases raised Saudi Arabia's per capita defense spending to become the world's largest behind the twelve advanced industrial nations, Israel, and Singapore.[68] With increased military power, Faisal was able to maintain a handle on the new anti-imperial movements sweeping the Arab world.[69] Indeed, once Nasser's influence subsided, the KSA was no longer pressed to regulate Aramco out of political necessity, but rather encouraged to take control of its oilfields due to changes in the oil market.

Energy Crisis: This Time the Wolf if Here!

In April 1973, the US State Department's senior oil analyst, James Akins, who would later be appointed ambassador to Saudi Arabia, published a prescient piece in *Foreign Policy*, "The Oil Crisis: This Time the Wolf is Here." Akins cited growing anti-Americanism in the Middle East, decreasing oil production in the US, and increasing dependency on foreign oil to argue, "the oil crisis is a reality…[it] compels urgent action."[70] Although the US had been a self-sufficient "swing producer" for much of the early-to-mid twentieth century, having enough spare capacity to supply the Allied war effort during World War II, in the early 70s the US became dependent on foreign oil. This change rendered the country vulnerable to Arab political pressures at a time when the US benefited from the status quo of détente in the region.[71]

Following WWII, the US experienced three decades of industrial expansion during which its demand for oil increased in tandem with an annual GDP growth of 6 percent.[72] Not only because of industrial growth, demand for oil rose as its price decreased relative to all other fuels.

With expansion in the Middle East oil industry, overproduction in the global market outpaced supply to the point where low prices stimulated a virtuous cycle of demand.[5] At the same time as US consumption reached an all time high, a number of actions on the part of public and private parties hurt domestic oil production. Because production in the Middle East did not require as much capital as in the US, most low-efficiency wells were hedged out of the market—despite the US government's best efforts at curtailing imports.[73] In addition, oil companies neglected to build a single refinery in the US between 1960 and 1970, due to new environmental regulations.[74] These factors coupled to make the US less productive at a time when global demand reached an all time high. In the three years prior to Atkins article alone, US imports nearly doubled—15 percent of which came from the Gulf [table 1.1].[75] By allowing for the growth of multinational oil exploitation, the US government dug the grave for its domestic producers. Though low prices benefited global industrialization in the short run, they heightened dependence on oil in the long run and rendered oil consumers vulnerable to changes in the oil market. In 1972, demand finally outpaced supply, and the power to determine prices tipped in the favor of "sellers" over "buyers."[76]

While OPEC organized in 1960 to "secure fair and stable prices for [all] petroleum producers [and exporters]," OAPEC[6] formed in the wake of the Six-Day War to unite Arab oil producers.[77] At the time, Oil Minister Yamani claimed OAPEC would become "the EEC [European Economic Community] of the Arab oil producers."[78] As the oil market changed in the early 70s, Arab oil producers grew empowered to not only renegotiate prices, but take a more

[5] Supply outpaced demand as Middle East and Soviet oil industries developed and independent producers such as Italy's ENI entered the market.
[6] Organization of Arab Petroleum Exporting Countries (OAPEC): Kingdom of Saudi Arabia (1968), Kuwait (1968), Libya (1968), Algeria (1970), United Arab Emirates (1970), Bahrain (1970), Qatar (1970), Syria (1972), Iraq (1972), Egypt (1973).

active role in the production and marketing of their oil. Between December 1970 and before the outbreak of the October War in 1973, OAPEC's negotiations with the seven largest oil companies, also known as the "Seven Sisters," raised the "posted price"[7] of oil by 70 percent, from $1.80 per barrel to $3.01 [graph 1.1].[79]

In addition to market changes, oil producers grew empowered by their own development over the course of the mid-twentieth century. In a meeting with transnational oil executives in January 1972, Yamani explained, "When Aramco signed its agreement [1933], no Saudis had been to University and no Saudis had experience in the oil industry—now there are thousands of Saudi graduates and hundreds with experience in the oil industry." Rather than use this information to argue for nationalization, however, Yamani and the KSA remained moderate in their request for "equity participation" with Aramco. Participation was conceived by Yamani to allow oil-producing countries to "share in the equity capital of their existing concessions" and reserve a percentage of oil to market locally.[80] Distinct from nationalization, participation allowed oil producers to gradually acquire the skills necessary to manage their own oil production. Some producing countries, however, would not opt for such protracted transfers of power.

Oil and Politics Mix

With new radical regimes in states like Algeria, Libya, and Iraq and a new power dynamic in the international oil market, waves of nationalizations swept through the oil industry.

[7] Following the 50-50 Agreement of 1950, governments were allocated a 50% tax based on the "posted price" rather than royalties per barrel under the prior concession agreements. Instead of moving naturally with market prices, though, posted prices required negotiations. Before the Tehran Agreement in 1971, these negotiations favored oil companies, as governments faced barriers to entry in the market.

In February 1971, after price disputes with the French, the Algerian government nationalized 51 percent of the French share. Ten months later, Libya's Gaddafi nationalized all of BP's assets on the grounds that the British had failed to prevent Iran from occupying Arab islands in the Persian Gulf. Iraq, lastly, nationalized the entire Iraq Petroleum Company's (CFP) consortium in 1972 after failing to acquire participation. Afterwards, the Iraqi government successfully marketed its oil to the French company, CFP, proving that the change in the oil market would prevent a loss in market share like that seen during the Iranian nationalization dispute. These events gave "moderate" countries all the more clout to push for higher prices and greater participation. In 1972, Saudi Arabia, Abu Dhabi, Qatar, and Kuwait each acquired at least 20 percent participation with their concessions [graph 1.1].

Within this context of increasing economic power, Arab producers also began to wield increasing political power. On May 3, 1973, during one of his weekly courtesy calls with the CEO of Aramco, Frank Jungers, King Faisal requested that the US make a "simple disavowal of Israeli policies and actions" to avoid "having American interests thrown out of the area." Although Saudi Arabia was able to "stand alone" as a US ally during the Six-Day War—the King had become increasingly aggravated by the US' failure to uphold UN Resolution 242, which mandated the return of the Arab territories lost in in the war.[81] Because the threats to Faisal's survival had waned since Nasser's demise—and Anwar Sadat's expulsion of Soviet advisers from Egypt in 1972—the King was in a better position to make his political demands heard. Faisal did not view American support for Israel as a bulwark against communism in the Arab world, but the primary force behind its growth.[82]

Despite the warning signs at home and abroad, most economic analysts and political commentators in the US failed to ring the alarm bells and adapt to the changing geopolitical situation. One utterly misguided article published in *US News and World Report*, argued, for example, "America is becoming self-sufficient once again in oil."[83] Even the CIA, just days before the 1973 embargo would be imposed, submitted a report to the House of Representatives that claimed US dependence on Arab oil was a negligible 5 to 6 percent, when in reality it was closer to 15 percent.[84]

The only parties that were attuned to the changing political and economic situation were, not surprisingly, transnational oil companies, as their existence was directly threatened. In 1969, the Vice President of Mobil Oil—which held a 33 percent share in Aramco—prepared a report for President Nixon, warning, "anti-American sentiment has put in serious jeopardy vital U.S. interests and investments."[85] Moses explained, US operations in the KSA provided balance of payments returns of "close to $2 billion" and an "even-handed policy" with respect to Israel would be the only means by which to retain them.[86] At the same time, however, the CIA dismissed Faisal's threats as mere attempts to appease political radicalism in the region, not examples of an economically and politically empowered KSA. Then again, growing increasingly anxious in June 1973, Mobil took up a full-page ad in the *New York Times*, approaching the public instead of the government, to warn that America was becoming increasingly dependent on foreign oil and it was "now time for the world to insist on a settlement in the Middle East.[87] At the time, however, public opinion held oil companies in such low esteem, for their consumer-squeezing reputation, that their warnings went largely unheeded. A well-known oil expert at MIT, Maurice Adelman, accused the oil companies of being the "agents of foreign power."[88]

In addition to negligence, the US government failed to adapt to the incipient crisis because it benefited from the status quo of détente in the region.[89] Although newborn political currents grew up to replace Nasser after the Six-Day War, as far as the US government was concerned, the political situation in the Middle East was far less threatening than before. Despite paying lip service to being “an honest broker acceptable to both [Israel and the Arabs],” Nixon thought the US could afford to remain close to Israel. Indeed, in diametric opposition to Faisal, Nixon still viewed Israel as the primary bulwark against communism in the Middle East.[90]

In reaction to sustained inertia on the part of the US, Faisal met with Sadat at a session of the Arab Defense Council in January 1973 to grant the latter permission to spend Saudi subsidies on communist weapons. Seven months later, just weeks before the outbreak of the October War, Faisal told Sadat that he was prepared to cut oil production by 10 percent a year if American policy in the Middle East didn’t change.[91] With the assured backing of Faisal and the support of Hafez al-Assad in Syria, on October 6th, Sadat led surprise attacks on Israel—to either reclaim the Arab territories lost during the Six-Day War or at least pressure a change in US foreign policy.[92] When Nixon subsequently requested $2.2 billion for the resupply of Israel on October 19th, King Faisal finally unleashed his power on the US. The next day the Saudi government announced, “in view of the increase of American military aid to Israel, the Kingdom of Saudi Arabia has decided to halt all exports to the United States of America.”[93]

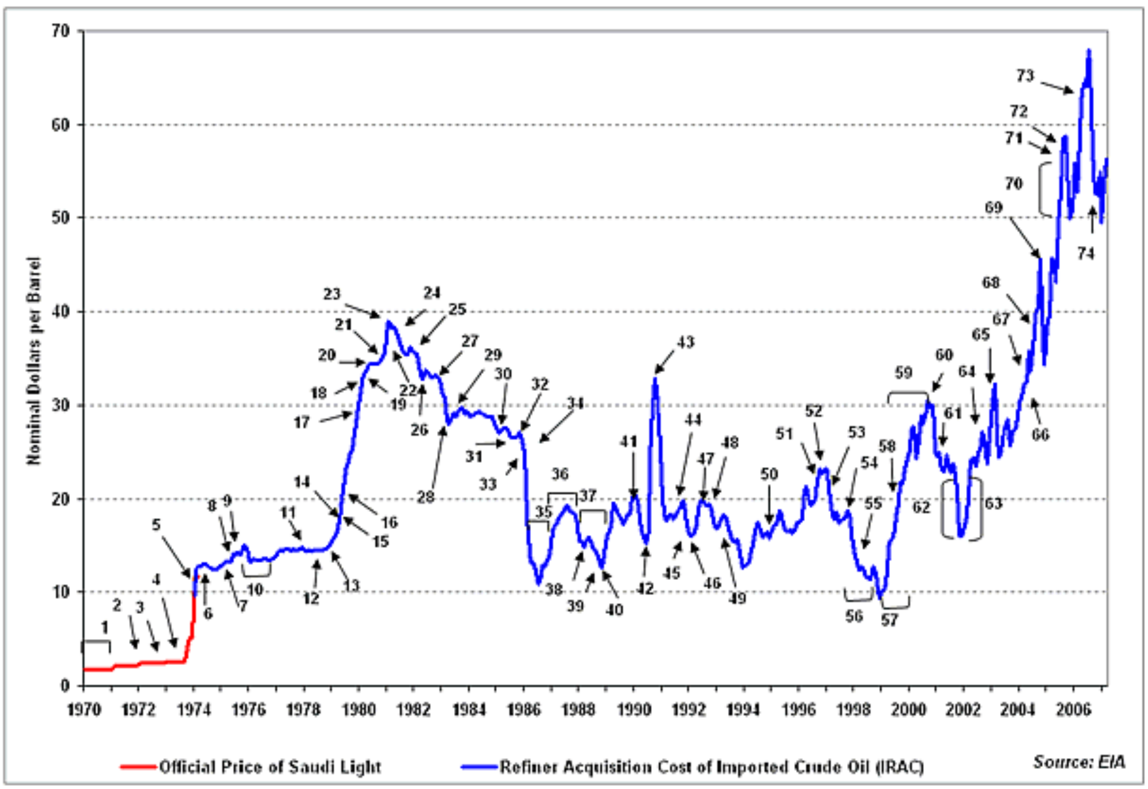
APPENDIX 1

Table 1.1: US Imports of Crude Oil 1970-1974 (Thousand Barrels)

1970	1971	1972	1973	1974
483,293	613, 417	811,135	1,183,996	1,269,155

https://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=MCRIMUS1&f=A

Graph 1.1: Changes in Nominal Oil Price 1970-2007



https://www.eia.gov/dnav/pet/pet_pri_spt_s1_d.htm

Graph Key:

1. Tehran Agreement, 1970
2. Geneva Agreement, 1972
3. Participation Agreement, 1972
4. 1st OPEC Unilateral Increase, 1973
5. 2nd OPEC Unilateral Increase, 1974

Chapter 2

The Embargo: From Antagonism to Alignment

Over the course of the next five months, the embargo wreaked havoc on oil-consuming economies, sowed division in the Atlantic Bloc, and bestowed unprecedented amounts of wealth and power upon Arab oil producers. In addition to the stoppage of oil exports to the US and the Netherlands,[8] the Saudis lowered their overall production by 20 percent, triggering widespread speculation in the market and leading to an astronomical price rise around the globe.[94] By December 23rd, OPEC grew empowered to quadruple the crude price to $11.65 per barrel, dwarfing the $2.00 price that had that had persisted for much of the mid-twentieth century.[95]

That same month, a special mission report submitted to the US Committee on Foreign Affairs assessed the feasibility of occupying Saudi Arabian oil fields with military force.[96] Entitled "The United States Oil Shortage and The Arab-Israeli Conflict," the report evaluated the effects of the October 1973 OAPEC oil embargo on the US economy and outlined a number of potential responses—some more aggressive than others. Although the US had failed to realize the full implications of the embargo prior to and immediately after its implementation, by December, its negative impact was obvious to all. Gas lines were piling up in the US, inflation and deficits were mounting around the globe, and the US was coming under increasing fire from its oil-consuming allies.[97] As far as the Nixon administration was concerned, major geopolitical intervention was warranted, but as of December, a clear answer as to what kind remained to be seen.

A hawkish few in the administration advocated for the use military force. Perhaps the most prominent among them, Defense Secretary Schlesinger spoke indignantly about the fact

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[8] The Netherlands allowed the American resupply of Israel to embark from their airfields.

that "underdeveloped, underpopulated" countries like the KSA could deal such a powerful blow to the US; he wanted to see the oil fields under complete US military control.[98] Hearing these rumors, Saudi Oil Minister Yamani threatened to light fire to Saudi oil installations, effectively widening the embargo to the whole of the industrial world.[99] By late 1973, the KSA had accumulated such large amounts of petrodollar surpluses that it could survive for at least three years without a lick of oil revenue.[100]

While more moderate than Schlesinger, Secretary of State Kissinger similarly denounced the Arabs' use of "blackmail." In January, he argued, "It becomes increasingly less appropriate for Arab governments to pursue discriminatory measures against the U.S. when the United States has publicly declared its support for Resolution 242 and has been the principal country prompting settlement in the area."[101] While the Nixon administration had initially ignored the risks posed by the oil weapon, once Israel secured a victory over the Soviet-backed Arab frontline states, Kissinger immediately began pursuing Arab-Israeli peace in an attempt to get the embargo lifted. Indeed, failure to do so would not only lead to the collapse of global capitalism, the Secretary worried, but risk the spread of communism in the Middle East, Western Europe, Japan, and the rest of the oil-dependent capitalist world.[102]

This chapter argues that the geopolitical dangers posed by the embargo prompted the Nixon administration to take seriously the demands of Faisal and reassess the KSA's position within its international framework of communist containment. At a time when the entire industrial world was starved for oil, the embargo threatened not just the stability of the US economy, but the economic and political viability of the entire Western bloc. Indeed, not since the Marshall Plan—perhaps the earliest form of Cold War containment—had economic factors posed such an immediate threat to the "free world."[103] Before dealing with the issue of high oil prices, Kissinger had to first recognize the political demands of OAPEC and disengage Arab-Israeli belligerents. To do so, Kissinger conducted "shuttle diplomacy" throughout the Middle East, meeting bilaterally with both frontline states and oil producers to play on the interests of individual countries and avoid making large-scale commitments. In this way, the US was able to gradually diminish Faisal's political opposition to the US. Ultimately, then, the embargo directly contributed to the realignment between the US and KSA by raising the stakes of political cooperation.

For the Saudis, the embargo elevated the Kingdom to a position of leadership in the region.[104] Just as the Six-Day War had amplified anti-American sentiment in the Middle East, so too did the October War; this time, however, the Saudis were in a position to run with the stream of anti-imperial sentiments. At the same time, their new position of power demanded a military buildup. Not only did high oil prices increase the potential "spoils" for anti-regime dissidents, but it empowered some of the KSA's nearby, oil-producing foes: Iraq and Iran.[105] While Faisal wanted help developing his economy—due to its small, untrained workforce and low "absorption capacity"—he also needed help investing excess capital abroad.[106] In these ways, the embargo directly heightened the KSA's dependence on outside support. None of this made realignment between the US and KSA inevitable. Rather, by impacting the US' policy of containment, the embargo eased political tension between the US and KSA and facilitated their reunion.

This chapter analyzes the embargo in three parts: implementation, continuation, and resolution. While the embargo commenced with rhetorical and material distance between the US and KSA, it concluded with a retrenchment of ties. The first section shows how the KSA's petroleum policy was originally rooted in oil market economics and became increasingly politicized as the US ramped up support for Israel. The next section analyzes the US' political and economic response to the embargo, which entailed changes in domestic energy policy as well as international diplomacy. The final section explains how the KSA acquired a new position of regional leadership and responded to the US' changed foreign policy with its own change in oil policy. The sections are organized by focusing on either the US or KSA to replicate the communicative nature of economic warfare: at implementation, the embargo expressed Saudi political demands; during continuation, it prompted a US response; finally, just five months after its implementation, on March 18th 1974, the KSA ended the era of antagonism and ushered in a new era of alignment with the US.

The Oil Weapon Unleashed

The oil weapon was conceived by the Arab oil-producing states as a double-edged sword to first, stimulate domestic, oil-producing economies and, second, influence Arab-Israeli politics. In the market, as chapter 1 has shown, prior to the embargo's implementation, demand for oil was on the rise, but prices remained arbitrarily low. Between just July and August, the US increased its total imports by 40 percent (doubling the amount coming from Saudi Arabia), but the posted price remained at $3.00 per barrel. Demand for Arab oil in Western Europe and Japan was even higher, representing 50 percent and 90 percent of total consumption respectively. Because demand was projected to continue to rise, moreover, producers like Saudi Arabia were incentivized to withhold production in the short term. Additionally, by the early 70s, most large producers—Saudi Arabia, Libya, and Kuwait for example—had larger inflows of capital than their small economies could absorb. Saudi Arabia, for one, a country of only seven million, began financing mosques and schools beyond its borders, giving aid to other economies like Egypt, and investing its remaining surpluses in foreign banks. In this context, the only way the

KSA and other wealthy producers would continue to widen the flow of oil was if consumers like the US granted political concessions.

Two days after the October War erupted, on October 8th, delegates from the major oil companies met with representatives of OAPEC in Vienna to attempt their last mutual price negotiation. With the war underway, negotiations were tense. The oil ministers of Saudi Arabia and Iran, Sheikh Yamani and Dr. Amouzegar, claimed the annual price increase of 2.5 percent agreed upon in Tehran, two years prior, was inadequate to keep up with the high levels of inflation. The same inflationary pressures that had caused Nixon to dismantle the gold standard and disband the Bretton Woods system only escalated after the dollar was de-pegged from gold.[107] Not only were comparable commodity imports from the industrial world becoming evermore expensive, but the oil market was itself indicating that the price of oil should be rising. Some independent oil companies were already auctioning off oil for as much as $5 per barrel. Considering these factors, Yamani and Amouzegar proposed for an immediate doubling of the posted price to $6 per barrel. The oil companies, on the other hand, represented by Piercy of Exxon and Bernard of Shell, responded with an offer to increase prices by a maximum of 25 percent, ten times the amount agreed in Tehran at the last price negotiation. In the face of such intransigence, the OAPEC delegates decided to take power into their own hands and reconvene in Kuwait. Later, Yamani would remark, "[the oil companies] were happy with the higher prices because that meant more profits for them, but they didn't want to be the ones to say yes."[108] Indeed, as the last chapter showed, the US press was becoming increasingly critical of the oil companies' failure to put the American people before profit.

On October 16th, in Kuwait, the OAPEC delegates agreed to unilaterally raise the price of oil by 70 percent. The next day, they released a communiqué detailing their decision to also:

> "reduce oil production forthwith by not less than 5 percent of the September (1973) level…until such a time as the total evacuation of Israeli forces from all Arab territory occupied during the June War is completed, and the legislative rights of the Palestinian people are restored."[109]

This meeting represented the first time the oil producing countries raised the price of oil without the approval of multinational oil firms. The CIA's energy intelligence officer, Jim Critchfield, explained, "The situation presented [Arabs oil producers with] an opportunity to make money and be a patriot at the same time."[110] Indeed, the oil producers combined a price rise with a production cut to stimulate their own economies, in the first place, and apply political pressure to consumers in the latter. Deputy Secretary of State Rush summed up this situation a month later: "The Arabs can increase their prices and cut back their production levels, and still have more money than they did before."[111] Rather than resort to an immediate embargo, the Arab oil producers opted for a gradual, progressive production cut to ensure the long-term viability of political pressure.

This policy alienated states like Iraq and Libya who had inherited parts of Nasser's anti-imperialist ideology. While Nasser and his Arab nationalist movements had subsided after the Six-Day War, as the last chapter explained, new radical leaders rose in the region. Iraq's Hussein, for one, protested the Kuwaiti conference altogether, calling for the blanket nationalization of all US interests in the Middle East. Libya's spokesman, Izz al-Din al-Mabruk, moreover, attended the Kuwaiti conference, but proposed expropriating every multinational oil company in the Middle East, not only those owned by US firms. In response, the Saudis and other Gulf producers heightened their own images of radicalism by arguing that production cuts were in fact more injurious to industrial states; nationalization implied only a change in who profited from oil exportation, not a change in the amount of oil exported.[112] Thus, in 1973 the oil-producing states experienced rivalries akin to those in 1967 between "revolutionary" and "reactionary" states, but this time Faisal assumed the leading role in opposing imperialism.

Two days after the issuance of the Kuwaiti communiqué, when Nixon requested $2.2 billion of aid to Israel from Congress, Faisal finally leveled complete opposition against the US and any other states "friendly" to Israel. Once he did, the rest of OAPEC quickly followed. Although the US had been sending minor airlifts to Israel since the 13th, in response to the Soviet's resupply of Egypt and Syria, now that Nixon had requested such large amounts of aid in direct disregard for Faisal's political warnings, the King was pushed to discontinue all petroleum shipments to the US. Like in 1967, Faisal balanced his own political opposition to the US with regional political opposition; this time, however, his heightened political and economic autonomy rendered opposition not only more genuine, but impactful. In order to continue relations, Faisal wanted to see the US become the primary broker for peace in the Arab world.

Shuttle Diplomacy: Divide and Disengage

The inability, on the part of the US, to prevent this crisis from unfolding was, as chapter one showed, rooted in the US' static policy of containment in the Middle East, which habitually prioritized Israel. Once Nixon's aid package helped Israel quickly crush the Soviet-backed Arab states, however, the US began seeking bilateral peace agreements and cozying up to individual states like Egypt and the KSA in an attempt to get the embargo lifted. By dealing with countries on an individual basis, the US could appeal to their national interests and avoid making full-scale commitments such as the full restoration of Palestinian rights. This section examines the US' changed posture in the Arab world in response to the 1973 embargo.

When Egypt initiated a surprise attack on Israel on October 6th, to the Nixon administration, it appeared as if the Soviet-backed Arab states had a real chance in crushing the Israeli military. Nixon wrote in his memoir, "It was unthinkable that Israel should lose the war for lack of weapons." [113] On October 14th, Kissinger wrote to Faisal, the US "had no alternative" but to begin an airlift of supplies following the Soviet "massive airlift of arms."[114] The Nixon administration was certain that it could not allow America's primary Middle Eastern ally to be defeated by countries supported by the Soviet Union. Once Israel achieved a decisive victory over the Arab frontline states, however, Kissinger began negotiating ceasefire and disengagement agreements.[115]

Although the US government had underestimated its reliance on Arab oil by as much as 10 percent prior to the embargo, the import cutback coupled with a 70 percent price increase triggered an exponential spiral of speculation in the oil market and injured the fundamentals of the US economy. [116] By December, OPEC delegates met again to double the price of oil once more to $11.65 per barrel. [117] As a result, a host of industries, from manufacturing to transportation, experienced contraction and raised the price of their outputs as costs rose. The US entered a recession not seen since the Great Depression. GDP plunged 6 percent between 1973 and 1975 and unemployment doubled to 9%.[118]

Within a week of the embargo's imposition, the US unveiled a rationing program under the header, Project Independence.[119] While conservation would temporarily heighten the pressure inflicted by the oil weapon, it would simultaneously incentivize domestic production levels and give the US more power to negotiate with oil producers. Essentially, if the oil weapon induced the US to become more independent, the Arab oil producers could risk losing permanent market shares as they had back when the market favored "buyers." In addition to Project Independence, a contraction in the US economy, a relatively warm winter, and increased imports from non-Arab oil producers ultimately rendered the impact of the embargo on the US less severe than other oil-importing countries.[120]

In addition to changes in domestic energy infrastructure, the US began to make "tangible" changes in its policy toward Israel, as Sheikh Yamani had recommended in November.[121] In January, the US facilitated a disengagement agreement between Israel and Egypt. By mediating bilaterally, the US appealed to individual nations' interests and avoided making large-scale commitments.[122] While the Saudis supported Sadat in the October War on the grounds that he was fighting for Palestinian rights and the return of all the territories occupied in 1967, the Egyptian president became appeased after the war with offers to reclaim individual segments of the Sinai. Since his expulsion of Soviet advisors from Egypt in 1972, Sadat had wanted to integrate with the US. The October War was his last effort to reclaim land and prestige for Egypt before making peace with Israel and cozying up to the US. The US took advantage of this situation by convincing Sadat it could not influence Israel to trade "land for peace" until the US was free from Arab "blackmail." Thus, from November to March, Sadat ironically became one of the primary advocates behind the lifting of the embargo. As early as one week after the final October War ceasefire, Sadat visited Faisal in Riyadh to make a "formal and official" recommendation that Faisal gradually lift the embargo on oil shipments as the US made headway in its negotiations with Israel.[123] Although Sadat would not succeed for months, in January, when the US negotiated the Israeli withdrawal from the Sinai, Sadat wrote to Nixon, "I am glad to inform you that…King Faisal has agreed to lift the embargo."[124] Despite this gesture of good will, further diplomatic efforts were required before the embargo could finally be lifted in March.

Although Faisal may have agreed to lift the embargo in a private meeting with Sadat, the reality was, OAPEC's political demands were still unmet. In light of the US' even-handed approach in the peace process with Egypt, the oil producers had watered down their demands promulgated in Kuwait in October, but they still wanted to see an end to hostilities between Israel and Syria before terminating the embargo. In response, the US argued again that it could not influence Israel if its actions were thought to be dictated by OAPEC. The US warned, moreover, that the embargo would undermine the its government's legitimacy at home, damage the favorability of Arab countries in the eyes of the American public and Congress, and empower the Soviets insofar as it weakened the economies of non-communist states. The notion that the US could not negotiate if its actions were thought to be dictated by OAPEC resonated most Faisal. By February, the leaders of OAPEC called to lift the embargo "unconditionally" so that the US might attain a stronger bargaining position with respect to Israel. Rather than ask the US to "pay anything," Foreign Minister Fahmi of Egypt and Saqqaf of Saudi Arabia told Kissinger and Nixon, "If you want to play a role, play it because it is right."[125] Of course, the newfound trust in the US was only granted on "the pretext that it had changed its policy toward the Arab issue."[126] Still, what was described as an "unconditional" lifting was, in reality, contingent upon the United States' continued efforts to disengage Israel and Syria.

On this front, Kissinger had doubts about the United States' ability to deliver, especially in the short timeframe OAPEC was pushing for. Assad was a more radical leader than Sadat and he had ambitions in the Golan Heights that exceeded what Kissinger thought the Israeli government would concede. Thus, instead of pleasing all the OAPEC ministers, Kissinger thought he might be able to coopt the most important, King Faisal. As early as November, Faisal had begun backing down from his principled stance against Israeli control of East Jerusalem, but he still feared that any concessions to the US might amplify the "pressure he was under from the radicals, Yemen and Iraq."[127] As in 1967, Faisal used the threats to his regime as justification for its continued opposition to the US, regardless of his own feelings. While Kissinger tried to eliminate the political pressure on the Saudi regime by negotiating bilateral peace agreements throughout the region, he knew an agreement with Syria would be slow to come. Thus, in addition to shuttle diplomacy, Kissinger attempted to appease Faisal with economic and military deals that would help strengthen the latter's regime in the face of potential opposition.

In early March, just three weeks before the lifting of the embargo, Kissinger met with Faisal in Riyadh to explain, "[W]e are prepared to begin talking about long-term cooperation in the military field, in the economic field, and in the scientific field."[128] The King responded, "We are certainly prepared to do so. At the same time we hope you will succeed in eradicating the problem of the dispute between the Arab States and Israel so that that frees us to devote all the time in pursuit of this objective."[129] In this way, the United States' attempt to realize Saudi political demands was a major contributing factor to the reification of ties between the two countries.

A Position of Leadership

At the same time as the embargo transformed the United States' position on the Arab-Israeli crisis, it irrevocably altered the political status of the KSA. Most obviously, the Kingdom's oil revenues skyrocketed from $4 billion to over $19 billion [see table].[130] New wealth encouraged the Kingdom to expand its state capacity and coercive apparatus, modernize its economy, and "buy-off" political consensus.[131] Additionally, the Kingdom expanded its "checkbook diplomacy" in the Arab world, committing an annual contribution of $2.5 billion to the frontline states at the Rabat Summit in 1974.[132]

At the same time, large sums of oil wealth brought added insecurity. Greater oil wealth, for one, "present[ed] an attractive set of spoils to potential rebels."[133] These spoils had repercussions for both domestic and regional security. Internally, as perceptions of inequality grew, so too did the probability of dissent. In the region, the Kingdom worried its oilfields would become prime targets for oppositional regimes. While the rising Baath regime in Iraq and the communist party in South Yemen presented the most pressing threats, Iran's growing power was also ominous.

As chapter one explained, the communist regime in South Yemen threatened the stability of not only North Yemen, Oman, and other Gulf states, but the stability of the Kingdom itself. The threats from Iraq and Iran, on other hand, became more pressing after the embargo. As oil prices increased, the revenues of not only the KSA, but its oil-producing opponents widened.[134] Having much larger populations than Saudi Arabia, moreover, Iraq and Iran could more readily translate their wealth into military superiority. Between 1973 and 1974, for example, the quantity of medium tanks in Iran and Iraq grew from 920 and 990 to 1,160 and 1,390, respectively, while the Saudi stockpile increased from only 25 to 55.[135]

While both countries posed threats to the KSA's overall power in the Gulf, Iraq represented the larger of the two. The former not only espoused Arab Socialism at home, but laid claim to territories in Kuwait and incited Arab Socialist parties throughout the Gulf, such as the PFLOAG in Oman.[136] Iran, on the other hand, opposed the Iraqi regime and communism more broadly. In early 1974, for example, Iran stationed a full combat brigade and air force unit in Oman to support sultan Said bin Taimur against the PFLOAG rebels.[137] Although the Kingdom's interests temporarily converged with those of Iran, this did not guarantee continued convergences, especially as concerns mounted over Iran's depleting oil reserves. Thus, after the embargo, a complicated picture emerged in which the Saudis new position of wealth and political leadership came with added amounts of insecurity.

APPENDIX 2

Table 2.1: Saudi Arabia Oil Revenues 1970-75 (in $ million)

1970	1,148.4
1971	1,806.4
1972	2,643.2
1973	4,195.0
1974	22,375.0

Source: Saudi Arabian Monetary Agency, Statistical Survey, December 1977.

Chapter 3

Imperialism through Commission: The US-Saudi Relationship After the Embargo

On June 6th, a week after the US facilitated disengagement between Israel and Syria, Kissinger met with Saudi Arabia's Prince Fahd in Washington to move forward with their "special relationship."[138] After two days of roundtable discussions, the officials announced a decision to establish two new commissions, which would oversee the exchange of goods, labor, and capital for decades to come: the Joint Commission on Security Cooperation (JSCOR) and the Joint Commission on Economic Cooperation (JECOR). Over the next decade alone, the commissions accounted for exchanges worth well over $60 billion. In *The House of Saud*, David Holden and Richard Johns described JECOR as "the most far-reaching agreement of its kind ever concluded by the US with a developing country. It had the potential to entrench the US deeply in the Kingdom, fortifying the concept of mutual interdependence."[139]

This chapter moves beyond notions of "interdependence" to explore the power imbalances in the US-Saudi relationship after the embargo. While the US government saw access to Saudi oil as necessary for its continued hegemony in the "free world," the House of Saud's very survival came to depend on economic and military support from the outside.[140] While the embargo empowered the KSA to take control of its oil production, the added insecurities accompanying political and economic leadership intensified the Kingdom's reliance on the outside support. For the US, the embargo heightened the stakes of US-Saudi relations and pushed it to actively leverage its military and economic superiority at a time when the KSA began trading with other industrial powers. This chapter describes the Joint Commissions as neo-imperial insofar as they originated in unequal, though symbiotic government-to-government interaction. The first section of this chapter explores the US' view of the world after the embargo, while the latter sections examine how the US capitalized on Saudi demands for military "modernization," economic diversification, and foreign investments. [141]

The Price Problem

Less than a week after the termination of the embargo on March 18th, Kissinger met with representatives of a number of major oil companies to discuss the lingering problem of high oil prices. [142] While the renewed shipment of 600,000 barrels of Saudi crude per day had significant weight in bringing the US and KSA closer together[143], it could not reverse the damage already inflicted on industrial economies.[144] In his meeting with Kissinger, Chairman Jamieson of Exxon explained, "the price problem is more critical than the supply problem."[145] By diminishing the global oil supply relative to demand, the embargo and concomitant production cuts directly empowered OPEC to raise prices to $11.65 per barrel. [146] This move, more than the embargo itself, put a drain on the US dollar, forced its allies to compete for bilateral deals with oil producers, and pushed its oil-dependent creditors, primarily LDCs[9], into bankruptcy. Together, these factors risked spiraling the entire oil-consuming world into a recession the depth of which had not been seen since the Great Depression.[147] In language that harkened back to the Marshall Plan and Truman Doctrine, Kissinger worried that a weakened Western Bloc would subject them to "influence from radical left and right wing political forces."[148] In this context, Kissinger devised a way to capitalize on Saudi military and economic needs and "crack the oil cartel and bring oil prices down."[149]

While prior scholars such as Gause and Bronson have described US-Saudi cooperation in terms of Nixon's regional strategy of military containment, the records demonstrate that after the

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[9] Late developing countries.

embargo, the United States coopted Saudi Arabia for the express purpose of lowering oil prices, which would only indirectly stabilize non-communist countries around the globe.[150] At a meeting with economic advisors, Kissinger explained his thinking on Joint Commissions: "I want to make it absolutely clear…we want to crack the oil cartel." The US would accomplish this by "get[ting] them to invest in large scale development projects…[so that] production cuts that produce revenue losses will hurt the producing countries seriously."[151] In other words, the US would encourage OAPEC's largest member to purchase US arms, technology, and bonds, so that it would rely on high levels of oil production and deter OAPEC from orchestrating any cuts in the future. The Secretary of Treasury, William Simon, explained further, "If production doesn't get cut oil prices [will] drop by 30%."[152] With oil prices on the decline, finally, Kissinger reasoned, "influence from radical left and right wing political forces" would also diminish.[153] Though this indirect form of price control paled in comparison with the Seven Sister's essential monopoly over prices in the 50s and 60s, the absorption of Saudi petrodollars would at least give the US government some material control over Saudi oil production.

Despite the United States' clear interest in the KSA, there was nothing inevitable about the latter's realignment with the US. After the embargo, the Kingdom needed to "modernize" its military—to defend against empowered movements in Iraq, Iran, and Yemen—and develop and diversify its economy—to safeguard against potential downturns in the oil market—but it now had more autonomy to garner support from other industrialized states.[154] Indeed, since the OPEC price hike, a number of industrialized states—France, Germany, and Japan—had offered the KSA military and economic technologies in direct exchange for large sums of crude. These deals gave more power to the Saudis in both its relations with the US government and Aramco: it reduced the Saudis' reliance on US arms and allowed them to market their crude beyond the bounds of Aramco's distribution networks. With more cash flowing in and petroleum flowing out, the KSA was empowered to purchase 60 percent of Aramco's equity in August—up from 25 percent—and acquire the rest by 1980.[155]

More important than its impact on Saudi marketing abilities, bartering posed a threat to the US because it "put a floor under prices."[156] While the private owners of Aramco did not oppose higher oil prices—because it increased profits and enabled oil exploration in more costly locations—the Nixon administration was worried that high prices incited "radical left and right wing political forces" in Europe.[157] Rather than focus on the impact high prices had on the US economy, Deputy Secretary Rush explained, the Europeans were "hurting themselves most of all" by competing in a race to the top for trade deals.[158] Thus, bilateralism in the KSA was not a problem because it directly damaged the US, but because it stifled European economies and risked undermining American hegemony in the non-communist world.

For these reasons, Kissinger had been advocating for an Integrated Energy Policy (IEP) since February, when he invited the oil-consuming nations to the Washington Energy Conference. The purpose of the IEP was to organize energy sharing and prevent a reversion to European autarky like that seen during the Great Depression.[159] Despite Kissinger's multilateral vision, some members opposed the IEP for fear of engendering "political confrontation between consumers and producers." Ironically, the French—who had invaded Egypt in 1956 when Nasser nationalized the Suez Canal—were the foremost critics of Kissinger's policy. They blamed the US for provoking the oil cartel in October, and suspected that it would continue to act on its own impulses—due to its smaller relative reliance on foreign oil.[160] Even after the US demonstrated its ability to negotiate with oil producers, persuading them to lift the embargo in March, France remained intransigent. In July, when the French Foreign Minister met with Kissinger, Sauvagnargue remarked, "You are the United States…you can afford to antagonize the Arabs."[161]

When multilateralism failed, Kissinger had no qualms about resorting to Cold Warrior realism. In his memoir, the Secretary wrote, "If France insisted on freedom of action in the Middle East, refused to participate in a consumer grouping on energy, and saw no point in any Atlantic declaration, little was left of the Atlantic dialogue."[162] In August 1974, the Secretary's rhetoric proved more candid. Kissinger told top economic advisors, "We need to preempt the goddamn Europeans out of [the KSA]."[163] In the same way that the US viewed political containment around the globe as a zero-sum game with the Soviets, the Nixon administration came to conceive of the Saudi economy as a zero-sum game between industrialized powers. Just as the superpower justified its confrontation with the USSR in terms of the interests of the entire "free world," moreover, its bilateralism with Saudi Arabia was seen as instrumental to bringing down the price of oil for the benefit of all non-communist economies. The next section illustrates how the US leveraged its military superiority to advance bilateralism in the KSA.

The New Search for Security

Though the embargo created new security threats for the KSA [see chapter 2, section 3], its continued reliance on the US was not guaranteed. As stated above, the Saudis experimented with garnering military support from other industrialized states. One deal, in particular, included the order of 550 tanks and 450 aircraft missiles from France in exchange for $65 million worth of crude.[164] This development constituted just one of the many post-embargo bartering deals that caused alarm in the Nixon administration.[165] In this context, the US leveraged the superiority of its military to ensure continued access to Saudi oil.

Just weeks after the embargo ended, Kissinger summed up the United States' dominant military position:

> "No one else can give [the Saudis] 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. But when Iraq and South Yemen start cooperating, we have got to be there."[166]

Indeed, in 1974, American defense expenditures were more than ten times greater than France, and its global exports outsized the latter's by a factor of six.[167] American exports to the KSA, furthermore, were six times greater than those of the next largest supplier, the UK [see table 1].[168]

Ultimately, while other industrialized states could trade weapons for a limited supply of Saudi crude, the US was the only state capable of fully equipping and, more important, training the Saudi military. Indeed, the Saudis not only requested an upgrade for their small military, but a guarantee that a strong state would prop them up if and when, "Iraq and South Yemen start[ed] cooperating." While the British had withdrawn their military presence in the Gulf in 1971 due to balance of payments issues—and the rest of the industrialized world grew even more indebted during the oil crisis—the US was relatively unburdened by debt and able to intervene in the Gulf in a crisis. As the Vietnam War wound down, finally, the US acquired spare military capacity to uplift other proxies.

In mid-April, the Saudis agreed to purchase more than $270 million worth of surface-to-air and air-to-ground missiles from the US and paid the American Defense Department $335 million to train the Saudi National Guard.[169] The two states also agreed to meet in the summer and discuss further opportunities for military cooperation, assuming the US would succeed in disengaging Syria and Israel.[170] By adding a condition to continued collaboration, the Saudis maintained political pressure on the US while simultaneously strengthening military and economic ties. Indeed, in the same way that Faisal had held a "stick" up to the US during the embargo to influence its foreign policy, the King now tried to hold influence over the US with a "carrot."[171]

Not surprisingly, one week after Israel agreed to withdraw from the Golan Heights on May 31st, Prince Fahd met with Kissinger in his conference room at the State Department to discuss their ongoing efforts to "moderniz[e] Saudi Arabia's armed forces." While Fahd expressed concerns about the KSA's nearby threats—in Yemen and Iraq—he also requested that the US give aid to friendly states such as Jordan and Oman. Kissinger, for his part, offered token assurance that the United States "shares with the Saudis an interest in stability in the Arabian Peninsula and Persian Gulf."[172] Two days later, the two signed a "Joint Statement on Saudi Arabian-United States Cooperation," prescribing for a joint committee to "review programs already underway for modernizing Saudi Arabia's armed forces…especially as they relate to training."[173] Over the next decade, dozens of military deals conducted under the review of the Joint Commission would account for approximately $8.8 billion in exchanges [see table 2]. These deals included the sale of anti-tank missiles, towed guns, aircrafts, transport tankers, and the training of Saudi pilots in US' own military schools [see table 3].[174]

Although Kissinger continually emphasized the United States commitment to containment in the Gulf, it was clear that "[the Saudis] were more anti-communist [in the Gulf] than the Americans."[175] Military deals with the KSA were encouraged insofar as they tied up Saudi revenue streams, encouraged high levels of production, and prevented the further destabilization of Western economies, but they were not necessary for the direct containment of communism in the Gulf. Indeed, after Israel crushed the Soviet-backed Arab states, and the US succeeded in mediating Arab-Israeli peace, communism was perceived to be on the decline in the Arab world. In June, even Saudi Foreign Minister Saqqaf admitted, "aside from some pockets, who are radical communists or under Russian domination, now everyone in the Middle East has trust in you."[176] To deal with the pockets that were still "radical," the US had already elected Iran as the "Big Pillar"—despite the United States' alleged "twin-pillar" policy of containment in thee Gulf.[177] Throughout the 60s, the US provided Iran with billions more dollars worth of arms than the KSA, due to its larger military, and the discrepancy only widened after the embargo [table 1].[178] While the US leveraged its military superiority to capitalize on the KSA's military needs, this move was less to empower another proxy in the Gulf, and more to "crack the oil cartel and bring oil prices down."[179] Even so, because the KSA could not possibly acquire enough US arms to utilize all $20 billion of its surpluses, the next section illustrates how the US government leveraged its economic power to tie up additional petrodollars.

Develop and Diversify

The US attracted additional Saudi petrodollars by capitalizing on the Saudis' developmental needs. Since his assumption of power in 1964, Faisal had been trying to diversify the Saudi economy and "join the modern world."[180] In 1966 the King explained:

> "We are going ahead with extensive planning, guided by our Islamic laws and belief, for the progress of the nation…We have chosen an economic system based on free enterprise because it…suits our country by granting every opportunity to the people…to work for the common group. This doesn't mean leaving

> everything unchecked, for we will interfere when the Government finds it necessary to do so.[181]

Because the Saudi market incentivized investment in the comparatively advantageous sector of oil, much of the Kingdom's economy was left underdeveloped and in need of government intervention. Depending too heavily on oil revenues not only left the KSA vulnerable to volatility, but made it more difficult to translate oil surpluses into long-term economic growth. Indeed, a lack of infrastructure and a well-trained workforce rendered the KSA's "absorption capacity" insufficient to handle large inflows of oil wealth.[182] In 1970, therefore, Faisal initiated the KSA's First Five-Year Development Plan to:

> "assure the defense and internal security of the Kingdom…reduce economic dependence on the export of crude oil…develop human resources by education…[and] develop the physical infrastructure to support the achievement of the above goals."[183]

The development of human capital was especially important for Faisal. In 1966, Oil Minister Yamani explained, "[the KSA] needs and welcomes foreign capital, particularly…if the capital is accompanied by technical know-how and marketing ability."[184] In 1970, the King echoed, "It is within our power…to erect an enormous plant—but can we run the plant properly to get the desired results from it?"[185] Though the investment atmosphere in the Kingdom turned sour during the embargo—as threats of nationalization swept the Middle East—the wealth generated as a result heightened the urgency of development in the KSA while raising the stakes for US investment.[186]

In this context, the US attracted additional petrodollar surpluses by encouraging the KSA to invest through JECOR. Mobilizing both private transnational firms and public institutions, the

US government offered to facilitate the development of the KSA's administrative capacities—vocational training, census gathering, customs assistance, and data processing—infrastructure—electrification and highway construction—and industries—petrochemical, desalination, and solar, to name a few [see table 4].[187] Over the next four years, the KSA's total investments in these projects amounted to $776 million [see table 4].[188]

While these contracts helped the Saudis "join the modern world," they simultaneously "maximize[ed] payouts to US firms and ma[de] Saudi Arabia increasingly dependent on the United States," as one participant explained.[189] Applying Kissinger's logic, however, the maximization of payout was not an end in itself, but a means to tying up Saudi revenues. Though the US government would not have viewed corporate profits in a negative light, there is no evidence that the US "encourage[d] greater Saudi revenues as large-scale capitalist development benefited imperials," as Fred Halliday has argued.[190] To the contrary, the majority of contracts signed under JECOR were not delegated to private transnational firms, but public institutions [see table 4]. If anything, the US government used JECOR not to increase revenues, but temper the downward pressure on oil production generated by high revenues. Because the US government was involved in indirectly controlling Saudi oil after the embargo, the relationship can be framed as neo-imperial. Once again, however, JECOR could not succeed in absorbing the total amount of Saudi surpluses, due to the low "absorption capacity" of the Saudi state. In this way, the same scarcity of labor and infrastructure that prompted Saudi modernization in the first place was also the major hindrance to its development. To tie up the rest of the Kingdom's wealth, the US had to go one step further and offer investment opportunities in its own financial markets.

Petrodollar Recycling and the New International Monetary System

The memorandum given to Nixon before his meeting with Prince Fahd in June explained, "The Saudis face the question of how to handle rapidly accumulating monetary reserves."[191] While the previous sections explored the KSA's long-term goals for military modernization and economic development, this section deals with the KSA's immediate investment needs. Between 1973 and 1982, it was estimated that the Kingdom would accumulate more than $200 billion in surpluses. Even before the massive increase in oil price in December, the head of Saudi Arabia's central bank, Anwar Ali, had exclaimed, "we are sinking under a sea of billions of dollars."[192] After the embargo, Ali said:

> "International cooperation on a broad scale will be necessary to minimize the disruptive effects of a massive accumulation of foreign reserves…We realize it is our advantage to handle our surplus funds in a manner that does not disrupt the system. Stability is as important to us as it is to the Western World. You must help us by providing opportunities for us to invest our surplus funds."[193]

In response, the US government, namely Secretaries Kissinger and Simon, offered the Saudis attractive "add-on" arrangements to recycle their petrodollars directly into the US Treasury. This arrangement not only contributed to the US' project of stabilizing the "free world," but directly reified its hegemony in the international monetary system.

Though Secretary Kissinger originally wanted to recycle petrodollars multilaterally, once again there was disunity in the Atlantic Bloc. At a meeting with OECD counties, the Secretary argued, "We must arrange borrowing and lending among ourselves so that the petrodollar reflow becomes more flexible. We should do this however without the producer countries in order to avoid political leverage by them over us."[194] Like Kissinger's attempt at an Integrated Energy

Policy, however, the Secretary's proposition for a capital Safety Net never came to fruition over suspicions that the US would act in its own favor.[195] To prevent competition over petrodollar recycling, Kissinger and Secretary Simon devised a plan to use JECOR to funnel petrodollars directly into the US Treasury, from which they could then redistribute capital to the debt-ridden countries of the world. Even so, credit alone would not be enough to solve the fundamental capital disequilibrium between oil producers and consumers—only decreased demand and low prices could do that. Thus, the Secretaries conceived of a way for the interest gained on US Treasury investments to be rechanneled into developmental projects under JECOR.[196] In this way, all three kinds of bilateral petrodollar recycling—arms sales, economic development, and treasury investments—would put upward pressure on oil production in the KSA.

Though they worked together to devise the petrodollar recycling mechanism, Secretary Simon's intentions went one step further than Kissinger's in advancing the unilateral interests of the United States. The Secretary of Treasury was a hardline neoclassical economist. Domestically, he pushed Nixon to cut welfare services and defund social security. Most of all, he worried that if the US "continued to debase [its] currency…[it would bring] financial collapse."[197] Since the dissolution of the Bretton Woods system in 1971—when global imbalances between the dollar and gold became too great—the dollar began inflating at unprecedented rates, endangering the stability of the US economy and encouraging the usage of alternative currencies in international trade.[198] By encouraging the Saudis to recycle petrodollars into the US Treasury, the Secretary sought to introduce a new "black gold" standard and curb runaway devaluation.[199]

Despite the benefits Kissinger and Williams saw in petrodollar recycling, other US officials, such as Senator Ribicoff, worried that the maintenance of a strong dollar privileged financial investments in the US at the expense of industrial exports—at a time when other industrial states were experimenting with competitive devaluation.[200] Additionally, Ribicoff took issue with recycling over the fact that it would "burden [the US with] being creditor and banker to all the other oil-consuming nations in Europe and the Third World."[201] While this was exactly the Secretaries' intent, those in the anti-recycling camp wanted to see the KSA and other oil producers take responsibility for devastating oil-dependents and take on the risks of keeping them solvent. Once again, the increase in global oil prices not only harmed members of the Atlantic Bloc, but a host of new "fourth world" countries, the latter of which were estimated to need $1.5 billion in credit.[202]

In July, nevertheless, Simon traveled to Riyadh to "open…the working committees…of this joint committee" and advance his and Kissinger's monetary agenda.[203] Just as Kissinger had leveraged American military superiority to attract Saudi arms purchases, Simon leveraged the superiority of American financial markets to attract Saudi investments. By the summer of 1974, despite the onset of an energy-related recession, the US economy was doing remarkably well relative to other industrialized states. The US not only had less debt than most other industrial economies, but offered the highest relative interest rates on its bonds [table 3.5]. Simply put, American financial markets were not only the most secure option for the Saudis, but the most profitable.

Beyond having a structurally sound economy, the US Secretary actively incentivized investments in the US Treasury by offering privileged "add-on" arrangements. Under these deals, the Saudis would be allowed to purchase bonds both in "secret"—a key prescription by Faisal—and outside the bounds of the market.[204] While the bond market would usually react to an increase in demand by raising the price and lowering the interest rate, the Saudis were given static "add-on" offers at above-market rates. [205]

Though the contents of Simon and Faisal's meeting remain inaccessible, afterward the Secretary informed the press that the Saudis agreed to purchase US bonds "well in excess of $5 billion."[206] By 1979, these investments were estimated to reach $59 billion [Graph 1.C].[10][207] Such large commitments must be attributed to the stability and profitability of US "add-on" agreements. Indeed, in the same year that the US and KSA signed the Joint Commissions, the head of Saudi Arabia's central bank made explicit: "Stability is as important to us as it is to the Western World. You must help us by providing opportunities for us to invest our surplus funds"[208] While the KSA would ultimately loan the IMF $1.2 billion and fund its own development bank with $3 billion, an estimated 70 percent of Saudi assets ended up in the most stable of places: the US Treasury.[209]

[10] 45 percent of the Saudi surplus was reinvested in US banks and 30 percent was placed in the hands of the US government.

APPENDIX 3

Table 3.1: Arms Exports to Saudi Arabia, 1968-1975 (expressed in US$ m. at constant (1990) prices)

	1968	1969	1970	1971	1972	1973	1974	1975	Total
France	8	49	49					65	172
Germany (FRG)		53							53
Italy	35	35							70
Switzerland								30	30
United Kingdom	249	246	5	10	21	25			556
United States	164				80	157	368	372	1140
Total	456	383	54	10	101	182	368	467	2019

Source: http://armstrade.sipri.org/armstrade/html/export_values.php

Table 3.2: Arms Exports to KSA from US (expressed in US$ m. at constant (1990) prices)

1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	Total
157	368	372	377	749	829	499	640	1310	1871	1630	8800

Source: http://armstrade.sipri.org/armstrade/html/export_values.php

Table 3.3: Transfers of Major Conventional Weapons from US to KSA

No. Ordered	Weapon Designation	Weapon Description	Year of order/license	Year(s) of deliveries	No. delivered/ produced	Comments
1650	AGM-65 Maverick	ASM	1974	1975-1978	1650	
40	M-102 105mm	Towed Gun	1974	1975	40	For National Guard
1458	MIM-23B HAWK	SAM	1974	1978-1981		

4	Adjutant	Minesweeper	1975	1978-1979	4	Saudi Designation Addriyah
400	AIM-9J/P Sidewinder	SRAAM	1975	1976-1977	400	AIM-9J version
9000	BGM-71 TOW	Anti-tank Missile	1975	1976-1979	9000	
521	Commando V-150	APC	1975	1976-1979	521	Incl ambulance, 81mm mortar carrier, 20mm and 90mm gun and ARV version
2	KC-130H Hercules	Tanker/transport ac	1975	1977	2	
4	LCU-1610	Landing Craft	1975	1976	4	Second-hand, Saudi designation Al Qiaq

Source: http://armstrade.sipri.org/armstrade/page/trade_register.php

Table 3.4: Formal Project Agreements as of September 30, 1978

Project	Value (millions)	US Participants	Staff
Statistics and data processing	$ 18	Commerce	17
Agriculture and water	56	Agriculture, Interior, American University of Beirut	35
Electric power equipment and installation	69	a/GSA and Overseas Advisory Associates, Inc.	1
Electrical Services	24	Treasury and C.T. Main, Inc.	17
National Center for Science and Technology	15	National Science Foundation	0
Vocational training and training center construction	b/250	Labor, GSA,Frank L. Hope, Inc., and CRS Design	43

		ASSOciates	
Electrical power equipment	11	Treasury and GSA	0
Desalinization technology	79	Interior	3
Consumer protection	31	Treasury and Midwest Research Institute	5
Financial Information Center	36	Treasury; CRS Design Associates; Ford, Powell and Carson; and Boston Univ.	7
National highway programs	13	Transportation	5
Solar energy research	100	Energy and Solar Energy Research Institute	0
Auditing assistance	10	Treasury	0
Customs assistance	15	Treasury	0
Central procurement	12	GSA	0
Asir National Park	37	Interior and Wirth-Berger, Inc.	0
Total	$776		133

Source: http://www.gao.gov/assets/130/126054.pdf

Table 3.5: Real Interest Rate (%) in FRA, USA, GBR, JPN

	1971	1972	1973	1974
France	1.0	-0.4	0.7	0.1
United States	0.6	0.9	2.4	1.7
United Kingdom	-0.5	0.3	-0.4	-5.3
Japan	2.4	1.4	-4.9	-9.7

Source:
http://databank.worldbank.org/data/reports.aspx?source=2&series=FR.INR.RINR&country=FRA,USA,GBR,DEU,JPN

Conclusion

Do Petrodollars and Politics Mix?

The singing of JSCOR and JECOR marked the beginning of a new imperial relationship that would last for decades to come. Though the Saudis had been subject to transnational penetration since the signing of their first concession with SoCal in 1933, four decades onward, the KSA grew empowered to assert control over its natural resource and deal with the US government on more direct terms.[210] By igniting Saudi oil revenues and raising the US' stake in oil price and production, the embargo facilitated new, more direct forms of political communication and economic cooperation. Despite the symbiosis of the two states' realignment, their goals remained disjuncture and imbalanced. While the Saudis saw access to US military support, economic development, and foreign investments as necessary insurance against a potentially volatile position of political and economic leadership, the US saw access to Saudi oil as constitutive of its continued protection and control of the entire "free world."

In much the same way that the 1973 oil embargo enabled ruptures and continuities in the US-Saudi relationship, significant changes in the international oil market and geopolitical climate in recent decades have altered, but not ended the terms on which the US and KSA relate. While some of their fundamental material associations have grown stronger than ever—the KSA is now the largest market for US arms and the US has become the KSA's second largest consumer of crude—the two states' now deal on more lopsided terms. Most significant, while the KSA has increasingly depended on US arms with each new outbreak of conflict in the Middle East—from the Iran-Iraq War and the First Gulf War to the "War on Terror" and the current "New Middle East Cold War"[211]—US hegemony no longer depends on access to Saudi oil production to counter the "spectre of communism."[212][213] Distinct from the moment when Arab oil producers first became "masters of [their] own commodity," domestic oil producers in the US have now mastered the technique of hydraulic fracturing and glutted the world with oil.[214] In today's oil market, like that of the failed 1967 embargo, any cuts in Saudi oil production do not hurt consumers, but simply facilitate the expansion of US shale production.[215] Indeed, rather than gain power through production cuts, the Saudis have recently maintained high levels of oil production to damage their regional rival in Iran and force more capital-intensive American oilrigs out of the market.[216] Though Iran and Saudi Arabia agreed in November to curb production by 1.2 million barrels per day, the subsequent price increases led to an immediate increase in US shale output.[217][218] Thus, even if the US represents the KSA's second largest crude consumer, it is now far less reliant on Saudi oil.

For the KSA, on the other hand, continued access to US arms has remained an existential necessity. In 2011, after sweeping through Tunisia, Libya, and Egypt, the Arab Spring uprisings risked destabilizing the KSA's neighbor, Bahrain, and inciting its domestic Shia population.[219] Though the Kingdom was easily able to quell dissent with US tanks, more long-term tensions with Iran have culminated in proxy wars in Yemen, Iraq, and Syria.[220] Accordingly, the Kingdom has steadily increased its US arms purchases from $397 million in 2011 to $1.9 billion in 2016. Though the US continues to support the KSA for its efforts in combatting extremism in the region, neither Iran's rise nor terrorism can be said to constitute an immediate existential threat to the US.[221]

The fact that the Obama administration both agreed to a nuclear deal with Iran in 2015 and refused to sell the Saudis missiles in the last months of its tenure testify to the recent divergences in US-Saudi security concerns.[222] In 2016, when asked about the current state of US-Saudi relations, President Obama responded, "It's complicated."[223] Although Trump recently went back on Obama's obstruction of arms sales, there is no indication that the current threats to Saudi security constitute as large a threat to the US. Though the "War on Terror" certainly plays a large role in the US' support of Saudi Arabia, the question remains: why did the US export $3.5 billion to the KSA last year? Though a definitive answer would require research beyond the bounds of this thesis, defense lobbyist, Michael Herson, has offered a potential explanation. Herson claims:

> "Our military doesn't buy enough to keep many of our production lines open anymore…The problem is that if they don't buy from us…they'll turn and buy Chinese and Russian equipment. It's a concern not only as a threat to our industrial base, but from a foreign policy standpoint."[224]

In this way, the logic of the military-industrial complex may now constitute a greater share of US motives, compared to the era in which Kissinger had an obsession with "cracking the cartel." Whether or not the US government has become more classically imperial in its search for arms markets, the fact remains: US-Saudi government-to-government relations remain stronger than ever in the area of security, if not more imbalanced.

On the flipside, the degree of government involvement in the sphere of non-military exports has declined significantly. Despite its importance at inception, "JECOR went out of business," Thomas Lippman explains, "with no formal announcement by either country, at the end of Bill Clinton's presidency."[225] In the same timeframe, ironically, non-military imports from the US have tripled.[226] While the KSA remains dependent on the importation of skilled and unskilled labor, industrial technologies, food, and more, less and less of these non-military items are channeled through direct government-to-government contracts. In this way, the visible decrease in the US governments' stake in the KSA has allowed for a rebirth of conventional transnational penetration. Today, nearly 300 joint US-Saudi firms operate in the KSA without the supervision of any Joint US-Saudi Commission.[227]

The apparent inconsistency between the US government's enlarged role in selling arms and reduced role in economic development can ultimately be explained by the US' overall independence from Saudi petrodollars. While the KSA has invested increasingly in the US Treasury, raising its reserve holdings from about $10 billion in the 70s to over $100 billion in the last decade, a recent outbreak of hostilities demonstrated their contemporary power imbalances [table 3].[228] Although the Saudi Foreign Minister now denies the charge, after Senators Schumer and Cornyn introduced the "Justice Against Sponsors of Terror Bill" in the fall of 2015, Adel Al-Jubier threatened to withdraw $750 billion in treasury securities and other assets from the US.[229] Though the Saudis were initially provoked by the proposal to remove sovereign immunities for anyone proven to have helped facilitate 9/11, once the bill became law, Al-Jubier explained, "We don't use monetary policy and we don't use energy policy and we don't use economic policy for political purposes. When we invest, we invest as investors. When we sell oil, we sell oil as traders."[230] Thus, what looked like a chance for petrodollars and politics to mix, ended as a hollow threat.

Perhaps more striking than the Saudi Foreign Minister's about-face was the near unanimous disregard for these threats in Congress. If "US hegemony is [still] strongly underpinned by petrodollar recycling," as William Engdahl has claimed, then is it certainly curious why Congress would pass the 9/11 Commission and endanger US access to Saudi petrodollars?[231] Distinct from the negligence underpinning the US' dismissal of Saudi political demands in the lead up to the 1973 embargo, today's Congressional opposition is likely rooted in a reality of independence. Indeed, the KSA is now only the 11th largest holder of US securities, behind Japan and China who each hold at least ten times as much.[232] While Saudi holdings represent less than 2 percent of outstanding US bonds, they represent 20 percent of the KSA's foreign reserves.[233] Thus, while a withdrawal of funds would certainly have a noticeable impact on the stability of the dollar, it would likely cause greater turmoil in the KSA, which has experienced increasing deficits over the past three years.[234] Indeed, the fracking boom has not only led to more oil independence on the part of the US, but less financial independence on the part of the KSA. In the end, just as the embargo produced ruptures and continuities in the US-Saudi relationship, changes in the contemporary oil market and political landscape of the Middle East have reshaped, but not ruptured US-Saudi relations.

APPENDIX C

Graph C.1: Saudi Arabia's Treasury Holdings, 1974-2016

(Source:https://www.bloomberg.com/news/articles/2016-05-16/u-s-discloses-saudi-arabia-s-treasuries-holdings-for-first-time)

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[131] Lackner, *House Built on Sand*, 149.
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