An Overview of Oil in the Middle East – Summary Questions

1. What is an oil concession? How did both sides benefit from it?

2. Name the countries that signed oil concessions.

3. How did political control of the Middle East change following WWI? Relate this to the oil concessions given during that same period.

4. What was Venezuela oil concession of 1943? How did it impact the Middle East?

5. What is OPEC? What impact did it have?

6. Why did OPEC fail? (2 reason). What is the role of OPEC today?

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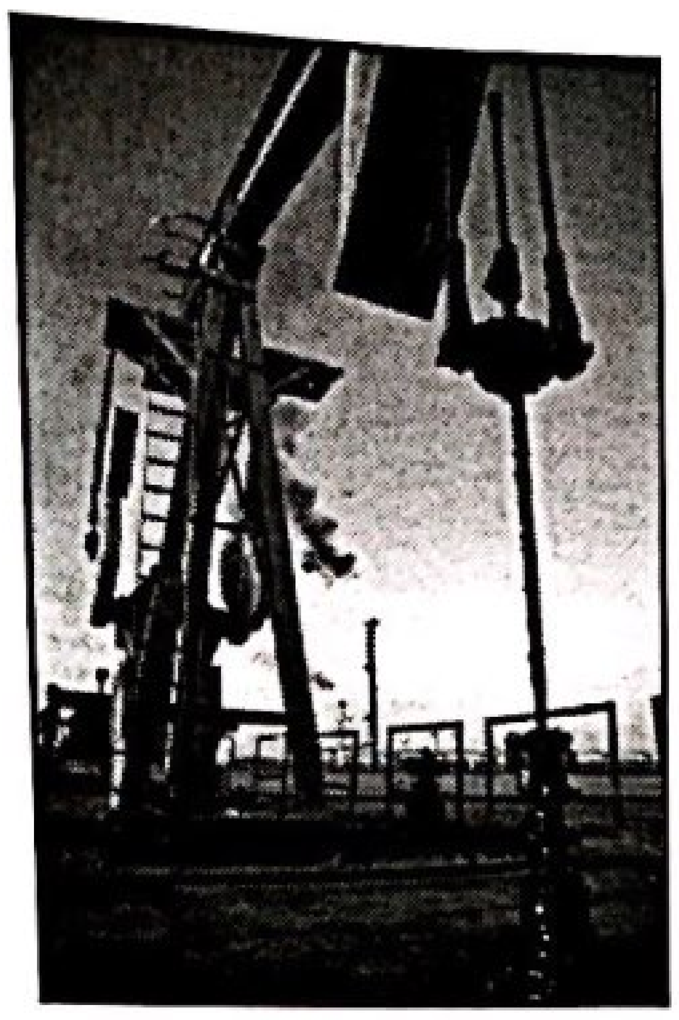
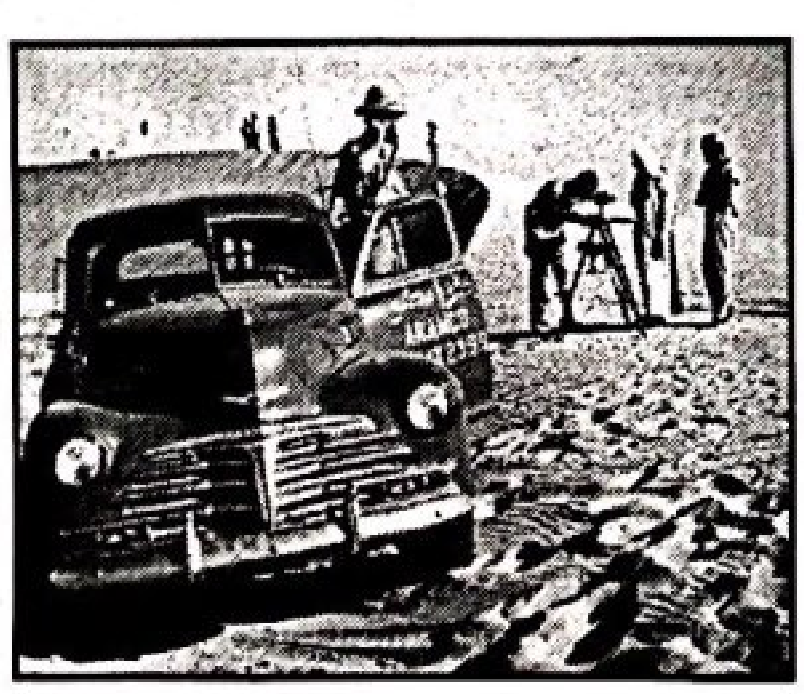


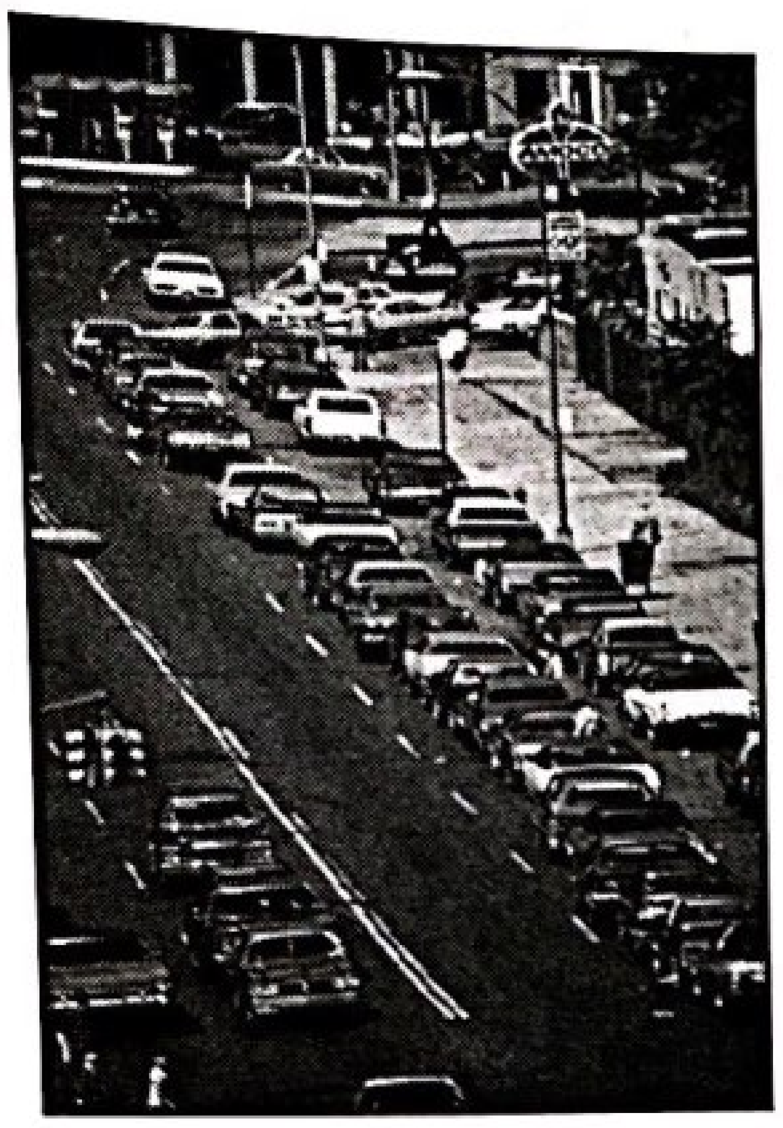
In the nineteenth century, the Middle East's location between Europe, Asia, and Africa became increasingly important to European nations. Nations such as Britain, France, and Russia sought control over trade routes, strategic military locations, and raw materials, such as oil. At the end of the century, as the need for oil grew, reports were published claiming that there was oil in Persia (now known as Iran). A British citizen by the name of William D'Arcy requested and acquired exclusive rights to virtually all oil discovered in the Persian empire for 60 years. This oil concession—in which Persia would concede, or give up, the rights to its oil resources in exchange for money—ensured that D'Arcy and his British backers would gain many millions of dollars more than Persia if oil were discovered. Like many Middle Eastern governments of the time, Persia was in great need of money, and thus signed the first major Middle East oil concession in 1901. A significant oil reserve was discovered in Persia in 1908, and a new company—Anglo-Persian Oil Company—was formed to process and export the oil.

Western demand for oil grew due to European and American reliance on oil-powered ships, planes, and ground vehicles during World War I (1914–1918) and the increase in automobile use in the United States. To meet this demand, western oil companies continued to seek concessions from Middle Eastern countries, including Iraq (1914), Saudi Arabia (1923), Bahrain (1927), and Kuwait (1933). As oil was discovered in each country, the concessions ensured the power of what became known as the "Big Seven" oil companies, all western: Standard Oil of New Jersey (later Exxon), Mobil, Gulf, Socal (later Chevron), Texaco, Anglo-Persian (later British Petroleum), and Royal Dutch-Shell.

After Germany was defeated in World War I, the Ottoman Empire—which had ruled most of the Middle East for hundreds of years—fell, leaving the region without a central ruling power. In a secret treaty, Britain and France parceled out the Middle East between them, using potential oil reserves as one factor in negotiating who would rule what. Although Middle Eastern leaders resisted western attempts to dominate the region, it was not until the 1950s that Middle Easterners gained greater control over their governments and resources.



One of the important goals of the Middle Eastern countries was to claim control over oil production. In 1943, the South American country of Venezuela renegotiated the terms of its oil concession with the United States to reflect a more fair 50-50 split in oil profits between the two countries. Venezuela's new concession showed Middle Eastern countries that better concession deals were possible. When Saudi Arabia negotiated a new 50-50 concession with the Aramco oil company in 1950, Kuwait, Iran, and Iraq soon followed suit.



In 1960, several oil-producing countries decided to unite to gain greater control over the production and price of their oil. Iraq, Iran, Kuwait, Saudi Arabia, and Venezuela came together to form the Organization of Petroleum Exporting Countries (OPEC). Members of OPEC were concerned that although they provided 80 percent of the world's oil, they had no control over how much the western oil companies paid them for it. For the first ten years of its existence, OPEC lacked true power over oil production and prices, partly because the amount of oil available in the world (the supply) was more than the world actually needed (the demand). But in 1973, world demand for oil began to greatly exceed the supply. In the United States in particular, the consumption of oil was excessive and often wasteful, due to Americans' heavy use of automobiles and a lack of national oil conservation efforts. With demand on the rise, the OPEC countries saw a chance to achieve some of the economic and political gains they had long desired. They raised the price of oil per barrel by 400%, began to reduce oil production to make oil more precious and thus keep prices high, and declared an oil embargo against the United States for its support of Israel in the 1973 Arab-Israeli War. An embargo meant that oil supplies to the United States were greatly reduced, and by the end of the year Americans often waited in line for one to two hours to purchase gas for their vehicles. When the embargo was finally lifted in early 1974, OPEC had established itself both as a cartel—meaning it had virtually exclusive control over the oil market—and a powerful world force.

By 1982, however, a combination of factors led to a decline in OPEC's power. The growing production of oil in non-OPEC countries increased the world oil supply and weakened oil prices as the countries engaged in price wars with each other and OPEC for a share of the market. In addition, world oil demand decreased as conservation efforts reduced the amount of oil people used. But perhaps the most important factor in OPEC's decline was OPEC itself. OPEC members had agreed that they would all sell the same amount of oil at the same price. However, the pressure of the fiercely competitive oil market of the 1980s—combined with intense pressure from western countries—caused some OPEC members to break their agreements. These members began selling their oil for lower than the agreed-upon price and exceeding their production quotas by releasing more oil than they were allowed into the market.

Today, oil is still the world's most important source of energy. In the early 1990s, the world consumed 65 million barrels of oil a day—or approximately 40 percent of all world energy—with the United States the number one consumer. Of these 65 million barrels of oil, non-OPEC countries (including the Middle Eastern countries of Bahrain and Oman) produced 35 million barrels, OPEC countries produced 25 million barrels, and the United States produced 5 million barrels. While oil has brought great wealth to some Middle Eastern countries, this wealth has often remained in the hands of the few, and other Middle Eastern countries—such as Egypt, Lebanon, and Yemen—have little or no oil.