



# The Oil Revolution

*By Bennett Sherry*

Oil was the most important resource of the last century and remains critical today. Colonialism, decolonization, and economic liberalization all shaped the history of oil production.

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## Colonizing oil

Oil is a term for petroleum liquids. It is mainly turned into fuel, but it can also be used to make lubricants and plastics.

Because it was cheap and efficient, oil accelerated industrial production and allowed faster transportation. Oil has impacted global politics.

The global oil boom started with the First World War when the British began converting their ships to oil power. Oil allowed ships to stay at sea longer and move faster. Britain did not produce oil. Most oil used by the British came from the United States—then the world's largest oil producer.



*Workers employed by Anglo-Persian Oil Company building oil pipelines in Iran. © Getty. Images..*

The British weren't content to rely on their American allies. In 1901, the Shah of Iran and a British entrepreneur signed a deal called the D'Arcy Concession. The Shah gave the Anglo-Persian Oil Company<sup>1</sup> the rights to Iran's oil for the next 60 years. In return, the Shah received a cut of the profits. In 1914, the British government bought the majority of shares in the company. For the next forty years the British government controlled Iran's oil industry.

After World War II, seven oil companies known as the "Seven Sisters"<sup>2</sup> dominated oil production. By 1960, the Seven Sisters controlled 85 percent of the world's oil. These companies set oil prices. In 1953, the Iranian prime minister Mohammed Mossadegh tried to take back his country's oil from foreign companies, or "nationalize" it. Anglo-Iranian Oil Company—one of the Seven Sisters—organized a global boycott of Iranian oil. The resulting economic crises prompted British and American intelligence agencies to remove Mossadegh from power. Western countries wanted to maintain control of oil.

<sup>1</sup> Later re-named "Anglo-Iranian" in 1934 and then "British Petroleum" in 1954, the company is now called "BP."

<sup>2</sup> Exxon, Mobil, Texaco, Chevron, Gulf, Shell, and British Petroleum (formerly Anglo-Iranian).

## Decolonizing oil

Over the next twenty years, the Oil Revolution changed everything. In 1960, Saudi Arabia, Iran, Iraq, Venezuela, and Kuwait formed the Organization of the Petroleum Exporting Countries (OPEC). Their goal was to control their nations' oil. As nations decolonized throughout the 1960s, they sought to nationalize their resources. OPEC expanded, and by the 1970s its members controlled half the world's oil.

As global demand for oil increased, OPEC negotiated better terms and profits for OPEC nations soared. The key to OPEC's success was their solidarity. OPEC included many different nations. They successfully collaborated to set oil prices. This shift of power from Western governments and companies to oil producers in the Middle East is known as the Oil Revolution.

## The oil shocks of 1973 and 1979

The power of OPEC nations became apparent in 1973. In October, war broke out between Israel and a coalition of Arab nations led by Egypt and Syria.<sup>3</sup> The Soviet Union supported the Arab states. The U.S. backed Israel. The Arab coalition nearly defeated the Israeli army. An emergency shipment of weapons from the United States turned the tide of the war. In retaliation for US support of Israel, the Arab members of OPEC announced an embargo (ban on trade) against the U.S. In three months, the price of oil quadrupled.

The U.S. was able to get oil from other countries, but the panic drove prices up. Oil prices later dropped, but they never returned to pre-1973 levels. In 1979, a second oil crisis erupted after the Iranian Revolution caused oil prices to double.

OPEC gained influence because they acted in solidarity to control oil production and prices. This solidarity fractured in the late 1970s. The government of the Shia Islamic Republic of Iran clashed with the governments of Sunni-majority Iraq and Saudi Arabia. In 1980, Iraq invaded Iran. The 1973 OPEC embargo was a short-term success for OPEC. In the long-term, it shifted power back towards Western governments and corporations.

## Power shifts again

The 1970s enriched oil-producing states all over the world. Even non-OPEC oil-producing states, like Mexico, saw increasing profits. Nations in Latin America, Africa, and the Middle East assumed this was the new normal. They began borrowing money, mostly from American banks. Countries that relied on oil imports also found that they needed to borrow money from American banks to make up for the rising cost of oil.



*Some gas stations in the United States rationed gas, requiring cars with even and odd license plate numbers to alternate days at the pumps. Gas stations frequently ran out of gas. © Getty. Images.*

<sup>3</sup> The war is often called the "Yom Kippur War" or the "Ramadan War" because it started on the holiest day in Judaism (Yom Kippur) and continued through the Islamic holy month of Ramadan.

There was a global economic recession from 1980 to 1982, and revenues for oil-producing nations declined. Many found themselves in heavy debt to American banks.

The U.S. government had leverage over these countries. The U.S. could provide loans and forgive debts, but help came with a price. Nations in debt were expected to open their economies to American companies. Policies of free trade and privatization—favoring American companies—spread. The architects of this system promised it would help poor nations, but it ended up hurting economies across Latin America, Africa, and Asia.

## Reverberations

The reverberations of the Oil Revolution continued. OPEC remained intact but member countries were no longer unified. This was clear in the case of Saddam Hussein's Iraq. By 1990, low oil prices were hurting Iraq's economy and threatening Hussein's hold on power. He blamed fellow OPEC member Kuwait for the decline. Kuwait and several other Gulf states were driving down prices by producing more oil than OPEC had agreed on. Hussein believed that Kuwait was part of an international effort to destroy his regime.

In August 1990, Iraq invaded Kuwait. The U.S. led a massive counter invasion from Saudi Arabia. The Americans and their allies drove the Iraqi army from Kuwait. They then invaded Iraq. The aftermath of the Gulf War lasted well beyond 1991. In 2003, the U.S. invaded Iraq a second time. The presence of American troops in Saudi Arabia in 1990-1991 was one of the factors that led Osama bin Laden to begin targeting Americans in the years leading up to the September 11, 2001 attacks.



*As Iraqi forces retreated from Kuwait, they set fire to Kuwaiti oil wells, contributing to another spike in oil prices during the early 1990s. © Getty. Images..*

Now, we might be facing a second oil revolution. Frightened by the 1970s, the U.S. has focused on domestic oil production. New technologies like hydraulic fracking have made America the world's leading producer of oil once again. Yet the future is uncertain. In the spring of 2020, the COVID-19 pandemic temporarily sent oil prices to historic lows as people traveled less. A global recession might follow the pandemic. (Note that this article was written in May 2020). If we avoid that, we still face the crisis of climate change, which has been driven by our increased consumption of fossil fuels like oil. International cooperation has created some pressure to consume less oil. The future of oil is unclear, but its impact on history is apparent.

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**Workers employed by Anglo-Persian Oil Company** building oil pipelines in Iran. © Hulton Archive / Getty Images.

**Some gas stations in the United States rationed gas**, requiring cars with even and odd license plate numbers to alternate days at the pumps. Gas stations frequently ran out of gas. © Collection/ Gado / Getty Images.

**As Iraqi forces retreated from Kuwait**, they set fire to Kuwaiti oil wells, contributing to another spike in oil prices during the early 1990s. © Stocktrek / Getty Images.



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