SOVIET OIL POLITICS AND THE MIDDLE EAST

THESIS

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By

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This investigation, covering the past two decades, attempts to determine what benefits the Soviets have sought to gain in their relationships with Middle Eastern oil-producing nations. Chapter I surveys the U.S.S.R.'s oil industry and its tentative prospects for the 1980's. Chapter II discusses Soviet involvement in the Middle East since 1950, including nationalization and oil embargoes. In Chapter III, developments less favorable to the U.S.S.R. are analyzed—the growing influence of conservative, anti-Soviet oil-producing states and the deradicalization of other Middle Eastern nations. Chapter IV concludes that the Soviets have met with varying success in their Middle Eastern involvements. The future of their oil industry remains uncertain.
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INTRODUCTION

In the current era of new natural resource policies and highly fluid energy conditions in many countries, oil, as former U.S. Secretary of State Henry Kissinger stated, is "the world's most strategic commodity."¹ The location--and the control--of much of the world's known oil supply have changed greatly since the beginning of this century. Sixty years ago British Petroleum imposed upon the Middle East its first concession contracts, which were later used as a model by other Western oil monopolies. These contracts denied the host countries the right to extract, refine, and export oil found on their lands. Western oil companies paid the Middle Eastern countries from five to seven dollars per ton for crude oil, and then refined it and sold petrol at twenty-five to forty dollars a ton, petroleum gas at twenty-five to twenty-seven dollars, mazout at thirteen to fifteen dollars, lubricating oils at sixty to one hundred dollars, and petrochemical products at several hundred dollars a ton. The gross income of British Petroleum in 1965 was 900 million pounds sterling, while the sum it paid the Middle Eastern countries was less than 200 million pounds.

¹Roy A. Werner, "Oil and U.S. Security Policies," Orbis, XXI (Fall, 1977), 651.
Iraq Petroleum, Kuwait Oil, and other companies with Arabian and Iranian names were merely subsidiaries or branches of Western oil companies. Not a single share in them was held by the Middle Eastern countries.2

In recent years, however, the Western oil companies that dominated the Middle Eastern oil industry for half a century have lost the control they exercised over oil production, pricing, refining, and marketing, and are being compelled to accept the new realities with regard to the oil-producing Middle Eastern states. A few years before the oil crisis of 1973-74, Walter Levy wrote about "oil power." The oil-producing countries of the Middle East, following the initiative of Libya, began to demonstrate that they could dictate terms to the great international oil companies, for years the symbols of the power of Western imperialism. Whether the question at hand was the price of oil, the level of royalties and taxes, or the terms of nationalization of company properties, there was no real negotiation because world oil trade had become a seller's market and because the national sovereignty of the oil-producing Middle Eastern countries could not be challenged. As long as the companies and the consumers were willing to pay for the oil, the

2Boris Rachkov, Oil, Nationalism and Imperialism (New Delhi, 1967), p. 5.
governments that controlled it could establish the conditions under which it would be sold.  

"Resource nationalism" among Middle Eastern countries and the impact of the "energy crisis" in Western nations created a fundamental shift in the international political arena. The ability of OPEC countries in 1973, through the control of their petroleum production, to insist that petroleum-consuming nations which support Israel should reassess their policy toward the Middle East and take an even-handed course in dealing with the Israeli occupation of Arab territories, marked a new era in the relations between the Western nations and oil-producing countries in the Middle East. The Arab oil embargo of 1973 was a direct manifestation of these changing conditions toward the use of natural resources as policy weapons in international politics. This action on the part of OPEC demonstrated the potential power of nations rich in natural resources--particularly petroleum--to influence and manipulate the policy options of the industrial world, and it challenged collective security concepts of the post-World War II era based primarily on military strategy.  

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3 John C. Campbell, "Oil Power in the Middle East," Foreign Affairs, LVI (October, 1977), 89.

4 Although the concepts of power and influence are central to political analysis, their meanings are elusive and complex. Jack H. Nagel has defined influence as "a relation among actors such as that the wants, desires,
As stated above, since its discovery, Middle Eastern oil has been both developed and exploited by the Western oil companies which sold it to Western countries. Because the Soviets believed that the West's main interest in the Middle East was its oil, the U.S.S.R.'s interest in the area sprang from political rather than economic motives. The strategic value of Middle Eastern oil and Western dependence upon it was clearly demonstrated during the events in 1956, 1967, and 1973, in the last of which Arab oil embargoes were imposed on the West. Since the mid-1950s the Soviets have taken an increased interest in the Middle East. Moscow initiated a policy of rapprochement with non-Community governments of independent states in the area by offering them weapons, economic assistance, and technical know-how. This post-Stalin policy is best exemplified by the Soviet-Egyptian arms agreement of September, 1955. Soviet support for the three basic principles at the Bandung Conference of Afro-Asian

preferences, or intentions of one or more actors affect other actors." Nagel uses the terms "power" and "influence" interchangeably. See Jack H. Nagel, The Descriptive Analysis of Power (New Haven, 1975), p. 29. According to Harold D. Lasswell and Abraham Kaplan, however, it is the threat of sanctions which differentiates power from influence, and power can be considered a special case of the exercise of influence. See Robert A. Dahl, Modern Political Analysis (Englewood Cliffs, New Jersey, 1976), p. 47. In this study the concept of power will refer to the means of control over resources, or the potential to affect outcomes.
countries—non-alignment in the cold war, peaceful coexistence, and anti-imperialism—gave the U.S.S.R. a great opportunity to set up symbols designed to enhance its image with Third World countries. The U.S.S.R.'s penetration into the Middle East and its increasing activities and involvement in the Middle East's regional struggles, as this paper will demonstrate, were designed to shape the developments in the area in the following directions:

1. To help revolutionary anti-Western forces which will maintain close relations with the Soviet Union.
2. To encourage the friendly regimes to nationalize their oil fields and to establish national oil companies that would terminate Western oil companies, which are considered to be the servants of imperialism, and request Soviet aid. In this regard the Soviet Union represents an alternative power to the West in helping oil-producing countries to develop their oil industry.

The U.S.S.R. is now the world's largest producer of oil. However, although the Soviet Union is not greatly dependent upon imported oil from the Middle East, Soviet foreign policy planners view this important Middle Eastern resource as an instrument in the strategic global balance of power. Consequently, the Soviet Union is acquiring a

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Heikal identified the U.S.S.R.'s aims in the Arab world as follows: (1) to liquidate British and French domination and prevent the U.S. from supplanting the old imperialist powers; (2) to disseminate Marxism and substitute it for the feudalist capitalism that is collapsing in the region; (3) to strengthen its position through cooperation with the countries of the region; (4) to exploit its advantageous position in the Middle East to undermine American interests; and (5) to avail itself of the Arab region for passage to Africa and Asia. Cited in Alvin Z. Rubinstein, Red Star on the Nile (Princeton, 1977), p. 186.
growing and more active role in international oil politics as a major exporter, an importer of increasing quantities of oil from the Middle Eastern market, and a middleman between buyers and sellers.

Despite the advantage of being a major oil exporter with large indigenous resource supplies, the Soviet Union is increasing its imports from Middle Eastern oil-producers. The relationship of Soviet oil policy to the Middle East is determined by economic and political as well as strategic factors. First, Soviet oil production costs are much higher than those in the Middle East, and the U.S.S.R. would find it economically advantageous to meet its needs with cheap oil from the Middle East rather than from domestic production. Second, the U.S.S.R. is committed to supply oil to Eastern Europe for two reasons: a growing flow of energy is necessary to keep those economies growing, and as a supplier of a vital commodity, the U.S.S.R. obtains a very powerful economic sanction enhancing its political power over these countries. However, the Soviet oil supply to Eastern Europe does not bring the badly needed hard currency which can be earned through exports to Western Europe and Japan because it is based on barter agreements. To solve this dilemma, the

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Soviet Union encourages the East Europeans to seek oil from Middle East producers on a barter basis. Aside from the economic advantage which oil imports offer, the expansion of oil trade is useful to the Soviets in that it creates a state of interdependence between oil-producing countries and the U.S.S.R. which enhances its power and contributes to its penetration into Middle Eastern politics.

Strategic motivation also plays a major part in Soviet oil policy in the Middle East. The Soviet leadership is fully aware of the extent of the dependence upon Middle Eastern oil of the economies of its ideological enemies in the Western world, and it apparently regards Middle Eastern oil to be of significant strategic military value with regard to the NATO alliance. The U.S.S.R. would clearly like to see the various countries in the Middle East come under its own influence, or at least behave neutrally in the context of the global struggle between East and West.

In this analysis of Soviet oil politics in the Middle East, it is not the intention of the author to survey the history of Soviet interests in the area; rather, this study focuses upon the factors affecting Soviet oil policy.

toward the Middle East and attempts to deal with some substantive questions such as the following: Do the Soviets seek to derive economic or political benefits from the extension of their influence into this oil region? Do the Soviets seek to import oil themselves or to deny the West the right to import, or is the actual motivation some combination of the two?

The first chapter of this study will discuss the oil industry in the U.S.S.R. and deal with that nation's oil reserves, production, domestic needs and pattern of consumption, oil industry problems, and future estimates of oil. The second chapter will examine Soviet interests in Middle Eastern oil from economic as well as political perspectives. It will also analyze the contemporary setting of the Middle East and give an overview of its political alignments as they pertain to oil politics. This chapter will also attempt to develop an examination of the Arab-Israeli conflict and its influence on oil politics as perceived by Soviet foreign policy. The nationalization of Western oil companies, pricing of oil, oil embargoes, and the arms race will be examined as they affect or are influenced by Moscow's oil politics in the Middle East. The third chapter will focus on the Arab Gulf region--location of the largest oil reserves in the non-Communist world--its significance to the U.S.
and the Western alliance, and its future role in the international situation of energy. This chapter will also deal with the process of deradicalization as a consequence of oil revenues, which presents Moscow with formidable obstacles that push the regional leadership of the Middle East in an anti-Soviet direction. Finally, Chapter IV, by examining the global implication of Middle Eastern oil as it involves the superpower rivalry, will illustrate the nature of interdependence evolving between the major oil-producing countries and the West. Then the present position of the U.S.S.R. will be closely examined in the light of the new process of political realignment.
CHAPTER I

THE OIL INDUSTRY IN THE U.S.S.R.

The current oil situation in the U.S.S.R. is paradoxical, and the Soviet oil industry's potential for productive capacity is the center of that paradox. Despite the fact that the Soviet Union is among the world leaders in the size of its oil reserves, the industry suffers from numerous problems, and oil production has not lived up to Soviet leaders' expectations. Due to the problem of secrecy and, consequently, insufficient data, Soviet views on their future oil productive capacity are uncertain.

Western views of Soviet petroleum prospects tend to fluctuate with the passage of time. In the late 1950s, the U.S.S.R.'s oil production outlook with reference to the nation's overall prospects of growth seemed very good, and there were reasons in the Western world to fear what was called the Soviet "oil offensive." A decade later, however, the U.S.S.R. appeared to some observers to be potentially in need of Middle Eastern oil supplies on a large scale. A Central Intelligence Agency report released in April, 1977, suggests that Soviet oil production will soon peak, possibly no later than the early 1980s. The report also suggests that before 1985 the U.S.S.R.
will probably find itself not only unable to supply oil to Eastern Europe and the West on the present scale but also having to compete for oil from the Organization of Petroleum Exporting Countries (OPEC) for its own use. The report estimates that the Soviet Union and Eastern Europe will require a minimum of 3.5 million barrels per day (b/d) of imported oil by 1985.¹

The Soviet Union was the world's third largest oil consumer in 1973 (6.4 million b/d).² No official Soviet figures exist as to expected future consumption, but some experts have estimated consumption in 1980 to be 10.1 million b/d. The revised Soviet Five-Year Plan for 1976-1980 calls for an expansion of oil production from about 493 million tons of oil equivalent (MTOE) in 1975 to 620 MTOE by 1980.³ On the basis of the record of fulfillment of the previous Five-Year Plan for 1970-1975, and indications that the development of new Siberian oil fields will lag behind Soviet expectations, the Secretariat of the Soviet Ministry of the Oil Industry estimates that about 580 MTOE are likely to be produced; projected at the same annual rate through 1985, 625 MTOE is indicated

³Ibid., p. 76.
five years later (see Tables I and II). Future output levels might rise should advanced Western technology and greater participation of Western companies become possible.

TABLE I

U.S.S.R.--PROJECTION OF TOTAL ENERGY REQUIREMENT*

<table>
<thead>
<tr>
<th>Type of Energy</th>
<th>1974</th>
<th>1980</th>
<th>1985</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil</td>
<td>352</td>
<td>460</td>
<td>525</td>
</tr>
<tr>
<td>Natural Gas</td>
<td>233</td>
<td>310</td>
<td>405</td>
</tr>
<tr>
<td>Coal</td>
<td>352</td>
<td>456</td>
<td>578</td>
</tr>
<tr>
<td>Hydro/Nuclear</td>
<td>30</td>
<td>71</td>
<td>209</td>
</tr>
<tr>
<td>Total Energy</td>
<td>967</td>
<td>1297</td>
<td>1717</td>
</tr>
</tbody>
</table>


Soviet officials have declared an intention to hold the growth of domestic oil consumption to five to six percent each year, despite rapid industrial growth, by greater substitution of coal for oil in the home market. If this rate is achieved, oil consumption might not rise above 460 MTOE in 1980, which would leave about 140 MTOE gross

TABLE II

U.S.S.R.--PROJECTION OF OIL TRADE*

<table>
<thead>
<tr>
<th>Aspect of Production</th>
<th>1974</th>
<th>1980</th>
<th>1985</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumption</td>
<td>352</td>
<td>460</td>
<td>525</td>
</tr>
<tr>
<td>Production</td>
<td>463</td>
<td>580</td>
<td>625</td>
</tr>
<tr>
<td>Imports</td>
<td>6</td>
<td>20</td>
<td>50</td>
</tr>
<tr>
<td>Exports</td>
<td>117</td>
<td>140</td>
<td>150</td>
</tr>
</tbody>
</table>


exports available for export to Eastern Europe and the West. As shown in Table II, this represents only a modest improvement in the Soviet net export position in oil.

Oystein Noreng, a counselor for Norway's state oil company, suggests that Soviet domestic oil consumption is likely to continue to grow at relatively high rates. This means that, sometime in the 1980s, the Soviet Union is likely to face the choice of curtailing domestic consumption, reducing export to Eastern Europe and the Organization for Economic Cooperation and Development (OECD) area, or depending on Western technology and capital in order to expand production. Each option presents potential disadvantages for the Soviet Union. First, reducing
domestic consumption could slow down agricultural improvements, petrochemical expansion, and the growth of the consumer goods sector. This option could trigger rising unemployment and cause increasing dissatisfaction among the Soviet people as they are introduced to some sort of consumer goods system. Externally, this policy could mean that the U.S.S.R. will be more dependent on foreign goods instead of producing them domestically.

Second, reducing oil exports to Eastern Europe implies the partial loss of a Soviet instrument of political leverage. East Europeans have traditionally been dependent on Soviet oil (in 1977 Russia provided 80 per cent of all crude oil and oil products for Eastern Europe), but as a result of the uncertainties about Soviet oil supplies, East European states are increasingly importing from new sources, especially in the Middle East. If the trend of greater oil imports from outside the Council for Mutual Economic Assistance (CMEA) continues, it could adversely affect the political cohesion in that area, for developing oil ties with the Middle Eastern states would encourage further dependence outside the CMEA circle.

5 "Soviet Share Rises in Total CMEA Production," Oil and Gas Journal, June 4, 1979, p. 64.

6 The East European states are Poland, Hungary, Czecho-slovakia, East Germany, Romania, and Bulgaria. They vary widely in energy resources, but all, including Romania (the richest in oil reserves), depend upon imported oil.
and, consequently, increase vulnerability to outside pressures. For example, Eastern Europe was affected by the loss of Iranian oil and began a desperate search for new sources of oil to make up for this loss.  

The third possibility for Soviet planners, to reduce oil exports to OECD countries, would limit Soviet foreign exchange earning and reduce the Soviet ability to pay for imports of Western technology, grains, and other items.  

Over the last fifteen years annual increases in Soviet oil production have fallen from the early 1960s level of around 12 per cent to a current rate of between 6 and 7 per cent. However, actual increases in terms of volume have increased from an average of about twenty million tons in the 1960s to over thirty million tons annually. As Table III shows, Soviet crude oil production has risen in total figures from 7.06 million b/d in 1970 to 11.43 million b/d in 1978. The statistics published by Izvestiia showed that 1978 oil production was 572 million metric tons, or 26 million over the 1977 level, but still 3 million short of the target.

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crude oil production totals since 1970, and Table IV shows Soviet oil consumption.

**TABLE III**

**U.S.S.R.--CRUDE OIL PRODUCTION**

<table>
<thead>
<tr>
<th>Year</th>
<th>Million b/d</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>7.06</td>
</tr>
<tr>
<td>1971</td>
<td>7.54</td>
</tr>
<tr>
<td>1972</td>
<td>8.01</td>
</tr>
<tr>
<td>1973</td>
<td>8.58</td>
</tr>
<tr>
<td>1974</td>
<td>9.18</td>
</tr>
<tr>
<td>1975</td>
<td>9.82</td>
</tr>
<tr>
<td>1976</td>
<td>10.39</td>
</tr>
<tr>
<td>1977</td>
<td>10.92</td>
</tr>
<tr>
<td>1978</td>
<td>11.43</td>
</tr>
<tr>
<td>First Quarter</td>
<td>11.19</td>
</tr>
<tr>
<td>Second Quarter</td>
<td>11.35</td>
</tr>
<tr>
<td>Third Quarter</td>
<td>11.48</td>
</tr>
<tr>
<td>October</td>
<td>11.66</td>
</tr>
<tr>
<td>November</td>
<td>11.70</td>
</tr>
</tbody>
</table>


°Including natural gas liquids.

Soviet Oil Reserves

The Soviets do not generally release absolute data on oil reserves, and Western estimates differ greatly, partly due to the confusion arising out of what categories of reserves are being talked about. However, of the three most important categories--proven, probable, and possible--Soviet reserves would appear to be in the region of 100-120 billion barrels or about 14 billion tons. Of this amount, some 42 billion barrels, or 5.7 billion tons, are
TABLE IV

U.S.S.R.--OIL CONSUMPTION*

<table>
<thead>
<tr>
<th>Year</th>
<th>Million b/d</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>5.15</td>
</tr>
<tr>
<td>1971</td>
<td>5.46</td>
</tr>
<tr>
<td>1972</td>
<td>5.92</td>
</tr>
<tr>
<td>1973</td>
<td>6.33</td>
</tr>
<tr>
<td>1974</td>
<td>6.79</td>
</tr>
<tr>
<td>1975</td>
<td>7.20</td>
</tr>
<tr>
<td>1976</td>
<td>7.55</td>
</tr>
<tr>
<td>1977</td>
<td>7.90</td>
</tr>
</tbody>
</table>


Preliminary.

estimated as proven. Recoverable reserves have been estimated at not less than 350 billion barrels, or 50 billion tons. By far the greater part of these reserves are thought to lie to the east of the Urals, in western and eastern Siberia, and in the off-shore regions in the Far East and in the Arctic. Reserves in the old producing areas of Azerbaijan and the Volga-Urals region are showing signs of exhaustion.11 As Table V shows, the Soviet oil regions most convenient for supplying the European market are being seriously depleted. A serious regional imbalance also exists in the proven and the probable reserves from which replacement output can come. The Soviet Ministry

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11Russell, pp. 50-51.
<table>
<thead>
<tr>
<th>Geographical Area</th>
<th>Million b/d</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>7.06</td>
</tr>
<tr>
<td>Urals-Volga</td>
<td>4.17</td>
</tr>
<tr>
<td>West Siberia</td>
<td>0.63</td>
</tr>
<tr>
<td>Central Asia</td>
<td>0.60</td>
</tr>
<tr>
<td>Azerbaijan S.S.R.</td>
<td>0.40</td>
</tr>
<tr>
<td>North Caucasus</td>
<td>0.70</td>
</tr>
<tr>
<td>Ukrainian S.S.R.</td>
<td>0.28</td>
</tr>
<tr>
<td>Komi A.S.S.R.</td>
<td>0.15</td>
</tr>
<tr>
<td>Belorussia S.S.R.</td>
<td>0.08</td>
</tr>
<tr>
<td>Far East</td>
<td>0.05</td>
</tr>
</tbody>
</table>

*Including natural gas liquids.
†Preliminary.
of the Oil Industry and Ministry of Geology have reported a serious underfulfillment of the goal for oil reserve increases.\textsuperscript{12}

Aside from this regional imbalance, Soviet oil reserves figures are impressive, and the imbalance does not affect Soviet security with regard to oil in the 1980s, since the U.S.S.R. ranks second in the world—after Saudi Arabia—in size of its oil reserves. The Soviet Union has 6.3 per cent of the world's "proven" oil resources, as compared to 6.1 per cent for the U.S.\textsuperscript{13} All of these figures indicate that the Soviet Union is rich in oil resources and that its energy problems are not the result of any quantitative causes.

The Soviet Oil Industry: Performance and Problems

The oil industry in the U.S.S.R. established a good record of plan fulfillment during the 1950s and 1960s; not until 1972 did it fail to meet the annual plan for crude production. In 1973 it again failed to meet the original five-year plan target set for that year of 429 million tons, and it also failed to meet the revised annual plan for crude oil of 424 million tons, achieving only 422

\textsuperscript{12}Robert W. Campbell, Trends in the Soviet Oil and Gas Industry (Baltimore, 1976), p. 73.

million tons. The 1974 target for crude oil production was originally 461 million tons, but this was amended in the annual plan to 452 million. Similarly, the 1975 plan for 496 million tons of crude oil was subsequently amended to a total of 489.4 million tons of crude oil plus gas condensate.\textsuperscript{14} The chief obstacles to success in Soviet oil production are lack of transportation facilities, difficulty of building such facilities in wilderness areas, and extreme pressure on existing wells to overproduce by use of water-injection techniques that damage deposits, require extra drilling, and thereby divert drilling crews and equipment from exploration.\textsuperscript{15}

The main performance-related problems facing the Soviet oil industry can be summarized as follows:

1. The reserves-to-production ratio is falling, due to the inadequate rate at which major new oil deposits are being discovered.

2. There is a rapidly increasing energy deficit in the European part of the Soviet Union which accounts for over 80 per cent of Soviet industrial productive capacity and energy consumption. This is due in part to a stagnating production in the Volga-Urals, North Caucasus, and Ukranian oil fields.

\textsuperscript{14}Russell, p. 44.

3. There are chronic shortages of equipment, steel pipeline, personnel, and infrastructural accessories, as well as a consistent record of failure by construction, communication, and machinery-producing ministries to maintain supply rates adequate to keep pace with the required development in the Soviet oil industry.

4. It is increasingly difficult and costly both to maintain existing levels of oil production in regions which have passed their peak, and to compensate for declining production in some other areas, due to deficiencies in the past planning of capital investment in secondary recovery methods.\textsuperscript{16}

The present-day levels of production and future growth in the U.S.S.R. can be maintained only by the discovery of major new oilfield regions, equivalent in potential to the Volga-Urals area or to western Siberia. Recommendations and directions regarding exploration have been criticized in Soviet technical literature as being too vague, and the choice of exploration areas and objectives for drilling is often ill founded. Geophysical techniques are inadequate, particularly in the geologically more complicated areas of the country. New equipment for

\textsuperscript{16}Klinghoffer, pp. 53-57.
exploration drilling is not being made available quickly enough.\textsuperscript{17}

Performance in Soviet oil production is lagging seriously behind requirements for the following reasons:

1. In some parts of the country the number of wells actually in production at any one time is lower than it should be because of a lack of well-servicing areas and the bad organization of their operations. Alcoholism and absenteeism among employees, a high accident rate at drilling sites, bad reservoir management, and lack of treatment plants for the removal of salt and water from the crude oil are other criticisms which are frequently cited in both oil industry literature and general economic publications.

2. Severe criticisms have been made by Soviet officials of the failure to construct pipelines of the requisite length and diameter in time to allow the maximum benefit to be obtained from newly prepared oil production potential.\textsuperscript{18}

3. Contributing to all the above difficulties are the shortcomings in the overall infrastructure, particularly in the new oil production areas in western


Siberia. These include inadequate roads, lack of adequate means of transportation, chronic shortage of accommodations, shortages of food and other consumer goods, and generally poor human conditions which cause a high turnover of manpower and a shortage of skilled personnel. The development of the Siberian reserves will take a long time and will depend on Soviet success in their campaign to attract Western capital and technology, which are very crucial in a country where concentrations of oil and gas resources are far away from the population centers.19

The Soviet Oil Export Position

Oil exports provide the Soviet Union with its single most important source of hard currency. The Soviets also desire to increase oil exports in order to be able to import Western technology, especially oil technology. In view of the growing uncertainties about the Soviet oil industry, however, it is not easy to predict its oil export position. One major factor contributing to these uncertainties is the conflicting signals of the rate of consumption. In recent years consumption has been faster than production; The Economist estimated the increase in

19Russell, pp. 49-50.
the rate of consumption to be approximately eight per cent a year. As a result of this production deficit, as well as large Soviet export commitments to Eastern Europe, the U.S.S.R. is faced with an oil squeeze that can affect its oil export policies.

Another source estimates the increase in the U.S.S.R.'s average annual rate of apparent consumption of oil at some 7.4 per cent; with government conservation measures and improved efficiency, this increase could be reduced to about 7 per cent, resulting in a 1980 figure of about 517 million tons. The projected figure for crude oil and condensate is 640 million tons, leaving a minimum surplus of 123 million tons for export.21

Since the Soviet Union supplies three-fourths of the oil required by the socialist systems of Eastern Europe, during the next decade the U.S.S.R. may well find itself unable to supply oil to all of these countries which are, with the exception of Romania, dependent on Soviet oil imports. The U.S.S.R. is also committed to supply other socialist states such as Vietnam and Cuba. In some of these countries, oil consumption is growing at a much greater rate than in the U.S.S.R. itself. The

20"Is Siberia Really the Answer?" The Economist, CCL (February 23, 1974), 47.

21Russell, p. 56.
rising oil consumption pattern in the East European states represents a serious problem for the Soviet Union since it is committed to supply them with that crucial commodity. Soviet output accounts for more than 97 per cent of all oil produced by the Soviet bloc's ten-nation Council for Mutual Economic Assistance (CMEA). Total 1978 Soviet bloc oil flow was 11.78 million b/d; of this amount, the U.S.S.R. produced 11.44 million b/d.\(^2\) Unless the relations between Cuba and its Latin American neighbors, such as Venezuela and Mexico, are improved to the point where Cuba can obtain oil supplies from them, the Soviet Union commitment to supply Cuba will continue to be a substantial burden on Soviet export capacity.

In 1971 the Soviet oil commitment to its communist allies was about 48 to 50 million tons of oil; the estimated figure for 1980 is about 80 to 100 million tons.\(^3\) Supplying oil to communist countries does not provide the U.S.S.R. with any hard currency, and the equipment it receives in exchange is less advanced than that received from Western countries, but these oil exports give the U.S.S.R. important leverage in East European economies. Soviet leaders feel uneasy, however, about

\(^2\)"Soviet Share Rises in Total CMEA Production," p. 65.

\(^3\)Ibid.
the extent of CMEA countries' dependence on their oil supply. Advising the East European countries to look to a new source for oil, a Soviet authority stated:

The steadily growing demand of the COMECON member countries for oil and the desire of these countries to improve their consumption can be met not only by deliveries of oil via the Friendship Oil Pipeline and expansion of their own oil production, but also from the developing countries of the Middle East.²⁴

In the mid-1960s, the U.S.S.R. informed CMEA members that by the 1970s it would no longer be able to fulfill their oil requirements and advised them to look for additional sources.²⁵

No exact figures from Soviet sources have been available indicating the extent to which the U.S.S.R. will supply the requirements of the other members of CMEA during the 1980s, although there are some indications that East European states will face cutbacks in Soviet oil deliveries during that decade.²⁶ The Soviet Union wishes to preserve its pivotal role in the East European oil market in order to have an instrument available for the application of political pressure, but it is not capable of supplying oil in sufficient quantities to match the rapidly-increasing


East European consumption rate. On the other hand, the U.S.S.R. sees a great risk in opening the door for the big Western oil companies in East Europe. The Soviet response to this dilemma is to encourage the East European nations to purchase Arab and Iranian oil. This option will leave the U.S.S.R. with some form of oil leverage in allowing its allies to buy oil from other sources only to the point where the Soviet potential for exerting oil influence is not seriously jeopardized. Soviet hegemony in Eastern Europe is based in part on the economic integration structure of the CMEA, and the Soviets realize that a loosening of energy dependence on the U.S.S.R. could lead to greater political autonomy on the part of East European states. Albania's and Roumania's independent positions and their challenge to the Soviet leadership on many issues are partially explained by their independence with regard to oil.

In 1973 the oil embargo, which created a huge oil surplus in the Middle East, helped the Soviets in their effort to redirect oil trade flows with Eastern Europe. For example, Hungary and Czechoslovakia joined with Yugoslavia to build an oil pipeline from the Adriatic coast, intending to fill the pipe with oil from the Middle East.27 Poland has arranged for British Petroleum

27Middle East Intelligence Survey, II (April 15, 1974), 16.
to build a refinery at Golansk and to supply it with three million tons of Middle Eastern oil per year. To speed the East European search for another energy source and to increase Soviet earnings, the U.S.S.R. in 1975 unilaterally broke its pricing contracts with its East European customers. Writing in the CMEA quarterly magazine, Moscow officials warned that the era of relatively cheap and abundant Soviet oil for other CMEA countries is ending. They claim that in 1977 other CMEA members obtained Soviet oil at 25 to 30 per cent below world prices. They also suggested a new price formula in which the Soviets would phase in higher world prices during a five-year period.

The process of redirection of Soviet-East European oil trade flows will probably ensure a continuing and important role for Soviet oil exports to Western Europe and Japan. Such exports have been a favored means since the 1950s of earning convertible exchange; one major reason for the Soviet decision to curb oil exports to its East European allies is the desire to increase oil sales to hard currency countries of the West. In 1973, sales of Soviet oil amounted to 50.5 million tons to the

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non-communist world and 63 million to the communist world.\textsuperscript{31} Sales to Western Europe and Japan, even when the Soviet Union serves only as a middleman for oil from another source, provides the U.S.S.R. with much-needed hard currency and are the country's biggest single source of foreign exchange, enabling the Soviets to balance their payments and to secure sophisticated technology.\textsuperscript{32}

The significant features of Soviet oil trade can be summarized as follows:

1. The year-to-year rate of growth of Soviet oil exports has been somewhat erratic, with no clear trends. The growth was checked in the years from 1969 to 1972, but the Soviets responded to high world prices with a renewed export expansion effort in 1973. In 1974, the total Soviet export of crude oil and produced declined by two million tons, but this was accompanied by a sharp decrease in imports from the Middle East, so that net exports rose by about seven million tons.

2. In 1975, the Soviets supplied East European states with 75 per cent of their oil requirement at prices well below those of the world market. Although this indicates

\textsuperscript{31}In 1977, the Soviet Union provided 80 per cent of all crude oil and oil products imports to East European members of CMEA; see "Soviet Share Rises in Total CMEA Production," p. 64.

\textsuperscript{32}Yodfat and Abir, p. 7.
a reduction by 15 per cent from the previous year, the requirements of Eastern Europe continue to place a heavy demand on Soviet export capacity.

3. The Soviets have been able to take advantage of rising world market prices in their exports to capitalist countries. They also succeeded in breaking the stable price formula used in oil trade with the CMEA group and negotiated a much higher price.

4. The ratio of Soviet oil products exports to crude exports has increased gradually in an effort to increase foreign exchange earning potential of the oil designed for export.

5. Soviet oil imports from the Middle East have increased significantly, although most of this oil probably never enters the U.S.S.R. but is shipped directly from the Middle East to Eastern Europe or other export markets\(^3\) (see Tables VI and VII for Soviet imports and exports of oil).

Outlook for the 1980s

It is not easy to predict what the Soviet oil situation will be in the 1980s because of conflicting signals coming from the oil industry, secrecy and unavailability of sufficient official data, and uncertainties about

\(^3\)Campbell, pp. 77-79.
### TABLE VI

**U.S.S.R.--IMPORTS OF OIL**

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°Preliminary.

Western technological and capital investments in the new areas of oil reserves in the U.S.S.R. Will the Soviet leaders succeed in their effort to attract foreign investment? How fast will the Soviet economy and, consequently, the nation's need for oil expand? And, finally, to what extent will be Soviets limit their commitment to their community allies? The outlook in the 1980s depends on the answers to these questions, and at this point no one can offer a definitive prediction because Soviet energy policy is closely connected to a complex set of political, technological, and developmental choices, each with its own risks and costs which must be evaluated.
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°Preliminary.
In spite of these acute problems in the Soviet oil industry, it should not be assumed that the U.S.S.R. is undergoing an energy crisis similar to the one in the West. The U.S.S.R. has geological oil resources that should permit it to remain self-sufficient, an option which may not exist for Western Europe and which would be very expensive for the U.S. The Soviet Union, however, is experiencing policy and organizational dilemmas over choosing the most efficient methods of fuel development. Production, consumption, transportation, equipment, imports, and exports must be balanced to fit together in a coherent pattern. The significance of the shortcomings of the oil industry is perhaps less great for the U.S.S.R.'s domestic economy than for the opportunities which the Ministry of Foreign Trade may miss as a result of having less oil available for export. Furthermore, the Soviet situation is distinctive in that a very large share of Soviet oil and gas is consumed in uses--especially as boiler and furnace fuel--where it could be replaced by coal. In 1972, liquid automotive fuel accounted for less than 14 per cent of total energy consumption in the Soviet Union, but about 24 per cent of total energy consumption in the U.S.\(^3\)\(^5\)

by Soviet policy-makers in this transitional period of Soviet energy policy.

The problems with which Soviet planners are faced involve present oil shortages, methods of avoiding shortages, and whether to increase oil production themselves or with foreign assistance. Decreasing internal Soviet consumption would restrict the U.S.S.R.'s economic development. Enabling Soviet allies in Eastern Europe to buy crude oil by themselves gives those countries a greater measure of economic and perhaps political autonomy. Decreasing oil exports to Western countries means a loss of foreign currency. Participation by foreign companies, particularly American and Japanese concerns, in the development of oil and gas resources in western and eastern Siberia might require unacceptable political costs to the Soviet Union. Finally, the Soviet Union and its East European allies are not attractive customers to the oil-producing countries in the Middle East since they do not have hard currency to pay for oil; and in a seller's oil market, producers usually do not like to limit their options by barter agreements in which the communist bloc's main asset is its arms supply.³⁴

³⁴The Iraqi decision to turn to Western technology after a decade of experimenting with Soviet bloc goods is a clear illustration of this fact.
The U.S.S.R. must supply oil to the East European states in order to maintain its political and economic leverage, export it to the West to earn hard currency, import technology, and try to maintain an active role in the international oil market to increase its global strategic balance. All this makes for a hard choice. In balancing all these commitments, the potential of Middle Eastern oil will be a major factor in the mind of Soviet foreign policy-makers in their outlook for the 1980s.
CHAPTER II

EVOLUTION OF SOVIET INTEREST IN MIDDLE EASTERN OIL
IN THE 1970s

Soviet interests in the Middle East have been shaped by some basic geopolitical factors related to the security of its southern border and by other economic factors in this region that contains nearly 70 per cent of the world's current reserves of oil. The Middle East is the focus for the strategic interplay between the world's producers and consumers. As stated in Chapter I, the principal objectives of Soviet oil policy in the Middle East region are the removal of Western influence and the encouragement of friendly regimes in an area vital to Western interests. A major foreign policy strategy to achieve these objectives is Soviet support of the wars of national liberation against Western imperialism. The alliance with the leaders of national liberation movements is central to Moscow's goal to undermine the Western position in the Middle East. The Soviet Communist Party considers "fraternal alliance with the national liberation movements to be a cornerstone of

1Joshua Wynfred, Soviet Penetration into the Middle East (New York, 1970), p. 4.
its international policy."² By supporting anti-Western movements in the Middle East, the Soviets offer their assistance as an alternative superpower willing to aid the new ruling elites in the Middle East in achieving their goals. This help and assistance provide the U.S.S.R. with a springboard for its penetration into the Middle East.

Following World War II, Soviet involvement in the Middle East was secondary when compared to that of the U.S., Britain, and France. By the end of the 1960s, however, the interests of the Soviet Union in this region had become more those of a superpower. In accordance with this status, the U.S.S.R. has extended large amounts of military assistance and of economic and diplomatic support to a number of key Middle Eastern states in an effort to influence their domestic and foreign policies. Several factors have encouraged the Soviet Union to make these increases in its involvement in the area; the Middle East is militarily weak, politically unstable and divided, and economically underdeveloped. Finally, the immediate initiative for Soviet involvement in the Middle East came from Egypt and Syria in the mid-1950s.

The genesis of active Soviet interest in Middle Eastern oil goes back as early as 1921, when the U.S.S.R.

²George Lenczowski, Soviet Advances in the Middle East (Washington, 1972), p. 17.
sought to retain oil claims in northern Iran acquired by a Russian citizen before the Russian Revolution. In 1947 Moscow demanded an Iranian oil concession as condition for withdrawing its forces from Azerbaijan. Middle Eastern oil and gas can be delivered to the U.S.S.R. more cheaply (in real terms, or opportunity costs) than Soviet oil because of the higher production costs and inconvenient location of the latter. Middle Eastern oil is also important to the U.S.S.R. since Russia must supply not only its own needs but also those of Eastern Europe and other dependent countries in the socialist bloc. But the motive of the Soviet interest in Middle Eastern oil is more than merely economic, for the area is of vital strategic importance to the Western world. Should the Soviets succeed in incorporating the Middle East into their sphere of influence, the balance of power in the world would be seriously upset. During the late 1960s, more than 80 per cent of Western Europe's military and economic establishments were fueled by Middle Eastern oil. Manipulation of these important sources of Western influence would greatly enhance the Soviet global position, and denial of these assets implies the collapse of Western influence.


⁴Wynfred, p. 3.

⁵One Soviet periodical stated in 1954: "It is the rich oil reserves in the Middle East, not the mythical
The strategic value of Middle Eastern oil and Western dependence became clear after 1956. The Soviets are aware that control over oil has been the key to Western influence in the region and that the demise of Western oil hegemony is leading to a reduction of influence in the Middle East as well. Oil was the link between the Truman Doctrine for the Middle East and the Marshal Plan for Europe. James Forrestal, U.S. Secretary of the Navy and a leading business voice in the Truman administration, stated:

Europe in the next ten years may shift from a coal to an oil economy, and therefore whoever sits on the value of the Middle East oil may control the destiny of Europe. . . . Without Middle East oil the European Recovery Program has a very slim chance of success. The U.S. simply cannot supply that continent and meet the increasing demand here.6

Elaborating further on this theme, Benjamin Shwadran writes, "Middle East oil became the decisive factor in the recovery of Western Europe and the backbone of the NATO structure."7

'menace' of the Communist, that is behind imperialist Western activities in this region. . . . The Soviet Union will seek steadfastly to continue to extend and strengthen friendship and cooperation with the Arab countries. The imperialist can no longer regard the underdeveloped countries merely as a potential source for extraction or maximum profits. The very fact that the Soviet Union and other countries of the Socialist camp exist is a major stumbling block to colonial policy." Cited in Yaacov Roi, From Encroachments to Involvement (Jerusalem, 1974), p. 113.


7Benjamin Shwadran; cited in Carl Solberg, Oil and Power (New York, 1976), p. 179.
Western oil companies have been viewed by Soviet foreign policy planners as an instrument of Western imperialism. The Soviets make no distinction between oil companies and Western states, since they believe that both serve the same imperialist interests. Oil companies put pressure on states so that the policies they desire will be enacted and oil companies officials are given high state positions.\(^8\) Izvestiia has pointed to the oil company-state relationship as one in which oil companies supply fuel for the army and the army controls other states in order to protect the interests of the oil company.\(^9\) One Soviet writer even claims that when the three Kennedy brothers tried to bring about greater state regulation of the oil companies, the companies hatched a plan to silence them.\(^10\)

Soviet oil relations with the Middle Eastern states are multifaceted; the U.S.S.R. is an importer, a middleman, and a lender of assistance in prospecting, production, refining, and marketing. Furthermore, the Soviets seek to establish geopolitical influence at key points in the

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\(^8\) Boris Rachkov, "Oil, Trade, and Politics," International Affairs (Moscow), No. 4 (April, 1966), p. 19.


Middle East by helping to orchestrate actions—often anti-Western in impact—such as nationalization and embargoes in order to weaken the West's strategic position.

Nationalization

Soviet spokesmen had long urged the Arab states to nationalize their oil holdings and thus strike a blow at "Western imperialism." The Soviets maintained that Western oil interests in the Middle East were concerned with preserving the status quo and, therefore, their own oil concessions. This situation brought about their collaboration with "reactionary" governments. The 1967 war in the Middle East, according to Soviet interpretation, resulted from oil company retaliation for restrictions placed on them by "progressive" Arab states. An article in International Affairs discussed the 1956 and 1967 wars and stated, "The essential object in both wars was to reverse the revolutionary trend and to preserve the area for imperialist oil companies."11

As a means of decreasing Western influence upon Middle Eastern oil production, the Soviets would like to see the nationalization of all Western oil companies in the Middle East, and they would prefer state control of

11Victor Perlo, "American Oil Companies and the Middle East," International Affairs (Moscow), No. 12 (December, 1967), p. 44.
marketing operations and operating networks. These changes will take time, however, so the Soviets prefer that Middle Eastern oil-producing states for the time being deal with small independent Western companies rather than with large monopolies.¹² In order to eliminate Western oil influence, the Soviets advocate socialism and assert that independence from the oil monopolies is greatest in states such as Iraq, Syria, and Algeria, which follow a non-capitalist path. State-controlled oil corporations can be strengthened and Western concessions weakened; the Soviets encourage the states that nationalize Western oil companies by offering them assistance in exploration and oil field development and advisors for state-run oil corporations, as well as purchasing oil only from the state sector to facilitate its growth.¹³

During the Iranian oil nationalization of 1951-54, the Soviet Union verbally supported Iran against Britain and other Western powers. Y. Bochkaryov's evaluation


¹³Arthur Jay Klinghoffer, The Soviet Union and International Politics (New York, 1977), p. 121. During an official visit to Moscow, Saddam Hussein, Vice-Chairman of the Revolutionary Command Council of Iraq, stated: "In the process of utilization of Iraq’s petroleum resources, we are relying on our forces, on assistance from our friends, and above all on assistance from the U.S.S.R., which we value highly." From Pravda; translated in Current Digest of the Soviet Press, XXIV, No. 7 (1972), 7.
of the nationalization developments affecting Iranian oil in 1951-54 included the following statement:

There can be no question that nationalization of the oil industry is an inalienable right of the Iranian state and its own internal affair. The time is fast passing when the imperialists could dictate their will to other peoples.\(^4\)

The Soviet representative at the United Nations supported the Iranian position during the 1951 Security Council debate. Soviet policy throughout the Iranian crisis was generally ambivalent and ineffectual, despite indirect actions carried out by the Iranian communist party (Tudeh) and the country's East European allies. The Tudeh Party infiltrated certain political organizations that took the lead in fighting Western oil companies and used the "united front" technique to broaden its base. The Soviet Union, however, gave little direct assistance to Iran and failed to take advantage of a political opportunity. The Western powers were attempting to reverse the nationalization decision by refusing to buy Iranian oil; the Soviets could have offered to purchase some of the oil, or at least provide technical assistance for the nationalized oil industry. Instead, the Soviets indicated that they were considering intervention in Iran in order to remove any British threat, and they also encouraged Azerbaijani

Once the oil nationalization dispute was resolved, Iran became wary of Soviet intentions and remained politically and economically linked with the Western states. One reason for the Soviets to underplay their hand during the Iranian nationalization dispute of the early 1950s might have been related to their general perception of their global position and the vital importance of this crisis to Western influence.

The Soviets maintain that their willingness to buy oil from nationalized fields, as in Iraq and Libya, greatly assists the nationalization process and prevents any effective Western boycott. For practical reasons, the Soviets advocate gradual nationalization. D. Penzin suggested partial nationalization and the creation of "mixed" companies in partnership with Western interests. He pointed out that the Middle Eastern oil-producing states had insufficient funds to pay for complete nationalization. Ruben Andreasyan, who frequently writes

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15 Benjamin Shwadran, The Middle East Oil and the Great Powers (New York, 1973), p. 444. On May 12, 1952, the U.S.S.R. told Iran that acceptance of U.S. mediation in the oil dispute would contravene the 1921 treaty, implying the threat that the U.S.S.R. might exercise the right under that treaty to intervene. Meanwhile the line of Radio Free Azerbaijan, a Soviet station pretending to be in Iranian Azerbaijan, was "Be patient; the hour of freedom is near." See Peter Wiles, Communist International Economics (New York, 1969), pp. 515-516.

about oil, advocated that Western oil companies appoint more nationals of the Middle Eastern oil-producing states to their directorial boards, share profits more equitably, share profits earned outside the Middle East, and train a greater number of local personnel. The reason for taking a gradual approach before 1973 lay in the Soviet recognition of the problems inherent in any nationalization action, such as a shortage of capital, technicians, and tankers. However, when the power of the oil-producing states increased in 1973 and 1974 as a consequence of the oil embargo, the Soviets radicalized their stand by rejecting "partnership" or reforms and beginning to call for rapid nationalization.

Soviet involvement with the nationalization process in Iraq indicates that the U.S.S.R. had developed a more mature understanding and a clearer position compared to their indifference to the Iranian oil crisis of 1952. The Soviets actively encouraged the Iraqi nationalization decision. A few weeks before nationalization was effected, Saddam Hussein, Iraq's vice-president, visited Moscow hoping to obtain Soviet support for defense and oil

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17 Ruben Andreasyan, "New Aspects of the Middle East Countries' Oil Policy," International Affairs (Moscow), No. 9 (September, 1968), p. 29.

nationalization. On April 9, 1972, during Alexei Kosygin's visit to Iraq to inaugurate the northern Rumaila oil fields, which the Soviets were helping to develop, a treaty was signed between the two countries. On July 1, 1972, the Iraqi government announced its decision to nationalize the Iraqi Petroleum Company (IPC) oil field at Kirkuk (one of the three main oil fields owned by the Western consortium). The Soviet leaders considered the IPC nationalization a major blow to the whole structure of Western oil holdings in the Middle East and a reinforcement of the trend leading eventually to the full nationalization of Arab oil and the consequent weakening of the Western alliance system headed by the U.S. The increasing Soviet involvement in the development of Iraq's oil industry, highlighted by the northern Rumaila agreement, was intended by the Soviet leaders to demonstrate to the Arabs that, if cut off by the West, they could turn to the U.S.S.R. as an alternate source of oil development capital. Indeed, a week before Iraq's nationalization, Pravda commentator Irina Pogodina stated:

\[19\] Roi, p. 566.

\[20\] According to the Rumaila agreement, the Soviets were to provide aid in oil production at North Rumaila and in the construction of an oil pipeline from North Rumaila to the Gulf port of Fao. See Klinghoffer, p. 136.
The recent commissioning of oil fields in North Rumaila, which were opened up with U.S.S.R. assistance, has created new opportunities for the Iraqi people in their strength against domination by foreign monopolies--Iraq's fruitful cooperation with the socialist states, which is developing successfully, has created auspicious conditions for the country's achievement of full economic independence.21

Writing in New Times, Pavel Demchenko analyzed the consequences of the IPC oil nationalization decision:

The decision of the Iraqi and Syrian governments to nationalize the property of the IPC struck a telling blow at the mighty oil empire foreign capital has built up in the Middle East and North Africa in the past half century. . . . The implications of this go far beyond the purely economic aspect and throw light on the potential contained in united action by Arab countries to gain control over their own natural resources in the independence and strengthening of their anti-imperialist positions.22

The Soviet financial loan and technical assistance served to strengthen the hand of the Iraqi leaders in their bargaining with Western oil companies, which had become very heated. While the Soviets favored the steps taken by Iraq and the subsequent decision by Syrian president Hafiz Assad to nationalize the IPC pipeline complex, they began to purchase Kirkuk crude oil which flowed through the IPC pipeline to the Mediterranean;


Soviet purchases began as early as July 8, 1971, and were instrumental in helping Iraq to overcome a Western boycott of the nationalized Iraqi oil. Iraq's problems with Western oil companies were not resolved until February 28, 1973, when a compensation agreement was reached with IPC.\(^2\)\(^3\)

Iraq provided an example for its neighbors of how to extract more benefits from Western oil companies, and Arab oil-producing countries began to adopt a more militant policy toward those companies. Sheikh Ahmed Yamani, Saudi Arabia's Minister of Oil and Mineral Wealth, expressed the following opinions on behalf of his government in January, 1972, before Iraqi nationalization:

> The atmosphere is so nice with us now in the moderate countries that the oil companies should cooperate with us smoothly and reach an agreement rapidly in a friendly manner. We moderates cannot underestimate the effect of national pride among the Arabs in, say, Libya and Iraq. If the Libyans nationalize all their oil resources and the Iraqis follow suit, I don't think Kuwait, Saudi Arabia and the Gulf states can keep quiet. There will have to be change.\(^2\)\(^4\)

After the nationalization of IPC, Iraq's Foreign Minister, Murtada Said Abd al-Bagi, went to Moscow to discuss the ramifications of the nationalization action. He secured promises of further Soviet assistance in the areas of transportation, prospecting, and refining

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\(^2\)\(^3\)Middle East Journal, XXVII (Summer, 1973), 361.

construction. The Soviets claimed that the friendship treaty enabled Iraq to nationalize the IPC and that they had been largely responsible for breaking the oil boycott of Iraq. The Soviets also pointed to the role of other East European states, such as East Germany and Bulgaria, which bought Iraqi crude oil and supplied tankers at the Banias terminal as well. Soviet actions in support of Iraq were important, particularly in terms of political influence, but the ability of the U.S.S.R. to market Kirkuk crude oil was limited as the Soviets could make only a symbolic purchase. In 1972, Soviet purchases of Iraqi oil could not have been more than three million tons, whereas the pipeline capacity was approximately

25B. Orekkov denounced Western oil monopolies in Pravda, stating, "The Iraqi Republic is continuing the struggle against pressure being placed on the country by oil monopolies, pressure which has increased particularly since the nationalization of the property of the IPC, announced on June 1, 1972. . . . And as could be expected the first step was an effort to close markets to the sale of Iraqi oil. This has led to complication of Iraq's economic position.

"The Soviet Union and other Socialist countries, as is known, have come to the aid of Iraq by buying up large quantities of the nationalized Iraqi oil. The block that was organized by the world petroleum cartel has been broken." See Current Digest of the Soviet Press, XXV, No. 1 (1973), 20.

In a statement to Pravda Saddam Hussein thanked the Soviets for their unselfish assistance in creating a national petroleum industry and in developing its oil resources independently: "The U.S.S.R. support and aid played an important and positive role in securing the victory in the struggle for nationalization of Iraqi oil resources." See Current Digest of the Soviet Press, XXV, No. 12 (1973), 22.
twenty times that amount.\textsuperscript{26} The inability of the Soviets to absorb more oil (due to the lack of a sufficient tanker fleet) or to pay for it and the lack of strong national personnel to manage the oil industry could explain why the Soviets did not appear to be behind complete nationalization of the IPC at the time.

On September 9, 1970, the Libyan News Agency announced that the Soviets could provide oil specialists to estimate Libyan reserves and well capacities. Libya had nationalized the British Petroleum-owned Sarir oil fields in December, 1971, and many Western oil companies were boycotting Libyan oil in retaliation for the nationalization action. On March 13, 1972, the Libyan News Agency announced that the U.S.S.R. was to buy Libyan as well as Iraqi crude oil. Soviet technical assistance and oil purchases enabled Libya to carry off the Sarir nationalization successfully, and Soviet behavior in Libya was similar to that shown in Iraq at about the same time. Soviet aid to the Libyan oil industry did not reach its expected level, however, because of political differences.\textsuperscript{27}

The nationalization of Western oil companies in the Middle East is an instance in which the Soviets' and the oil-producing countries' interests coincide. The Soviet

\textsuperscript{26}Klinghoffer, pp. 137-138.

\textsuperscript{27}Ibid., p. 144.
leadership has utilized economic and military aid to reinforce anti-Western behavior that the leaders of one Arab state were already contemplating. The nationalization of the IPC's oil fields at Kirkuk was the result of Iraqi initiative. The ruling Ba'ath Party in Iraq was committed to "the full liberation of oil wealth from foreign domination and exploitation, and to submit them under all aspects of sovereignty." Western oil companies were regarded by Ba'ath leaders as "a weapon in the colonialist policy and the symbol of imperialist domination." One basic objective of the Ba'ath ideology, thus, was the complete control of national resources, particularly of oil. Saddam Hussein warned against the assumption that the nationalization decision was made in Moscow, and he blamed Western oil monopolies for such unjustified accusations.

The friendship treaty between the U.S.S.R. and Iraq provided for mutual military commitments, and the Iraqi government was protected against any possible intervention by a foreign power on behalf of the oil companies' interests. By signing this treaty, Iraq had given its conflict with the Western oil companies an international dimension which could involve the major world powers. At

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the same time, the treaty contributed to the improvement of the Ba'ath Party's power position at home to deal with the Kurdish nationalists who claimed the Kirkuk oil fields at part of the Kurdish autonomous region. In an interview with a *Washington Post* reporter the Kurdish leader Mullah Mustafa Barzani openly appealed for American aid and held out the prospect of Iraqi oil in return:

We are ready to do what goes with American policy in this area, if America will protect us from the wolves. If support were strong enough, we could control the Kirkuk oil field and give it to a U.S. company to operate. It is our area, and the recent nationalization of the Western-owned field was an act against the Kurds.

The impetus for the IPC nationalization decision lay not in the Soviet Union but in the Iraqi regime, which wanted to gain control over the major source of hard currency on which its economic development depended and, at the same time, enhance its legitimacy among the masses. The cooperation between the Soviet Union and Iraq in oil development has played an important role in strengthening the ruling Ba'ath Party to pursue its objective of nationalization of Western oil companies. The Soviet leaders were also instrumental in cooperating with the Ba'ath

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30 The U.S.S.R. supported Iraq's military efforts against the Kurds, which began after they refused the Ba'ath autonomy offer that rejected their demand to include the Kirkuk oil fields in the autonomy plan.

leaders to establish a "national front" in which the Iraqi Communist Party offered its full support to the nationalization decision.\textsuperscript{32}

The treaty and the close relationship with the U.S.S.R. did not, however, prevent the Iraqi leaders from taking their own stands on many domestic and foreign policy issues which they considered to be of vital importance. Izvestiia's political commentator, Victor Kudryavtsev, writing one week after the IPC nationalization, complained that the Iraqi popular front (containing communists and other "progressives"), which the Ba'athist government of Iraq had promised as far back as 1970, had not yet come into existence:

The tasks confronting Iraq under its program of social and economic transformation are so great that the Ba'ath party alone cannot cope with them. It would be an illusion to believe that this program can be fulfilled without the cooperation between the Ba'ath on the one hand and the Iraqi Communist Party and the Democratic Party of Kurdistan on the other. In March, 1970, I had occasion to talk to Saddam Hussein, Deputy General Secretary of the Ba'ath regional leadership and vice-chairman of the Revolutionary Council; at that time he was already talking about the necessity of creating a national front of all the country's progressive forces, especially since the March 11, 1970 agreement on the peaceful solution of the Kurdish problem had facilitated the implementation of this task. But now two years have gone by, and still

\textsuperscript{32} From Pravda; translated in Current Digest of the Soviet Press, XXIV, No. 42 (1972), 16.
there are only talks about the creation of this vitally necessary front.33

Much doubt remained about the Soviet ability to exploit Iraq's dependency after the nationalization decision and to force the Ba'ath Party to create a genuine "popular front." Iraq's actions, such as the decision to permit the U.S. to open an "interest section" in the Belgian Embassy in Baghdad in August, 1972, which signified that Iraq was lessening its dependence on the U.S.S.R., and the rejection of the Soviet-sponsored cease-fire in the October war clearly indicate that the establishment of the national front did not influence the Iraqi leadership on issues the Iraqis deemed important.34

By 1973, the Iraqis were more interested in limiting their dependence on the U.S.S.R. Since 1973 the Soviet bloc did not gain a single major contract in the country; Iraq turned to the U.S. and Western Europe instead for help in developing its resources. American rigs are replacing Soviet equipment and all recent large contracts in the oil and petrochemical fields have been awarded to Western companies. Commenting on the trade relationship between the U.S. and Iraq, C. L. Sulzberger wrote:


34Freedman, p. 175.
Trade has suddenly zoomed with American exports to Iraq mounting from $32.3 million in 1971 to $284 million last year. Iraq Airways have bought five Boeings and ordered eight more; a Texas company is constructing a new deep-sea oil terminal; and U.S. Steel has sold several drilling rigs, with a prospect of large new contracts.  

In recent years Iraq has also engaged in negotiations with many other countries affecting its oil resources. In 1973 the nation concluded agreements with West Germany and Italy. France, in exchange for Iraqi oil, will build dams, roads, a petrochemical plant, and a nuclear reactor, and will install telecommunication equipment. In 1974, Iraq signed a one-billion-dollar oil-for-goods agreement with Japan. Reporting on Iraq's trade with Western European nations, Juan de Onis wrote, "Iraq's new oil wealth has opened an enormous market for Western contractors and suppliers including the U.S. . . . Imports last year reached $4.5 billion."  

On December 8, 1975, Iraq completed the nationalization of its oil industry by taking over the remaining foreign-held shares in the Basra Petroleum Company. The Ba'ath Party's success in the nationalization process provided a new sense of security to the regime, which had

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suffered increasing isolation in the past. The nationalization of Iraq's oil industry also speeded up the negotiations between other Arab states and Western oil companies. The Saudis pressed very hard the demand for gradual takeover or Aramco. On December 2, 1975, Kuwait acquired 100 per cent ownership of domestic holdings of its oil-producing companies, Gulf Oil Corporation and British Petroleum Company.38

The Soviet Union, the Middle East, and the Oil Weapon

One consequence of the June, 1967 war in the Middle East that Soviet leaders welcomed was the oil embargo that the Arab states imposed on the U.S., Britain, and West Germany. An article in the August issue of International Affairs stated:

The oil weapon is a powerful weapon in the hands of the Arab countries. This is the first time in the history of the Middle East that the Western world has been made to feel who is the real owner of Arab oil. Let us add that the Western powers depend heavily on Arab oil.39

Despite Soviet urging, however, Arab solidarity on the oil embargo could not be maintained, particularly since the conservative Arab states--Saudi Arabia, Kuwait,  


and Libya--were demanding its termination. In addition, both the U.S. had an oil surplus at that time and Iran had stepped up production to compensate for the Arab oil cutoff, and Western Europe was in no danger of running out of oil because of large emergency stocks. Consequently, at the Arab summit conference in Khartoum in August, 1967, the Arab states agreed to terminate the oil embargo. The rich oil states--Saudi Arabia, Kuwait, and Libya--agreed to provide Egypt and Jordan with an annual subsidy to compensate them for war losses. In return, Egyptian president Gamal Abdel Nasser agreed to pull his country's troops out of Yemen, thus ending the threat to Saudi Arabia's southern border.

The Soviets praised the embargo, calling it a "concrete and effective expression of Arab solidarity" against Israel and its supporters. A commentator in International Affairs stated, "A powerful weapon in the hands of the Arab countries is the oil boycott." He suggested that for the West do do without Arab oil would be "difficult, if not impossible." An Izvestiia article lauded the use of oil as a "weapon" and charged that Western oil monopolies

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"Freedman, p. 25.

Sedin, p. 28.
had spurred on Israeli aggression. It also indicated that half of the oil used in support of South Vietnam was coming from the Middle East and that, although the U.S. was not greatly dependent upon Arab oil for domestic use, that oil was important to the U.S. war efforts in Vietnam.³³

Although the Soviet leaders did not favor the Khartoum decision to terminate the oil embargo, they were pleased that the rich oil states were now sharing with the U.S.S.R. the expensive burden of supporting the chronically poor Egyptian economy. Writing in New Times after the conclusion of the Khartoum conference, Igor Belyaev and Yevgeny Primakov, two of the major Soviet commentators on Middle Eastern affairs, agreed with the Khartoum decision: "It was a matter of sober calculation. Refusal to pump oil for the U.S., Britain, and the Federal Republic of Germany caused no actual shortage of oil and oil products in Western Europe."³⁴ Ruben Andreasyan stated that the embargo had been a failure, indicating that the Arabs should have further by nationalizing Western oil properties. He also cited the large oil reserves built up by West European


states and the loss of income on the part of the Arab oil producers.\textsuperscript{45}

Boris Rachkov charged that Western oil monopolies which earned huge profits from the Middle East played an important role in the preparation and implementation of the 1967 war events.\textsuperscript{46} However, despite an intensive Soviet propaganda campaign to strike a blow to "Western imperialism" by using the oil weapon, Soviet crude oil exports to Western Europe went up by 27.1 per cent in 1967 and their value by 37.9 per cent. The Soviets moved into West European markets with offers of additional oil and raised their prices as well.\textsuperscript{47}

In 1971, in an article about the radicalization of Libya since the overthrow of the Idris monarchy Andreasyan indicated that rising demand for oil was helping the oil-producing Middle Eastern states: He charged that Libya was not receiving high enough prices for its oil and sympathized with Libya's threat of an oil embargo as a means of securing better financial terms. In 1972, another Soviet writer called the 1967 embargo a "countermeasure" based upon Israeli occupation of Arab territory, and he

\textsuperscript{45}Andreasyan, p. 36.

\textsuperscript{46}Boris Rachkov, "Oil--Behind the Scenes," Izvestiia, July 11, 1967; cited in Freedman, p. 75.

\textsuperscript{47}Petroleum Intelligence Weekly, March 10, 1969, pp. 6-7.
asserted that any future embargo would also be a countermeasure.\textsuperscript{8} The Soviet press continued linking the use of oil as a "weapon" against the U.S. and other West European countries to the Israeli occupation of Arab territory and encouraged the use of oil as a means to secure an Israeli withdrawal.

The October War and the 1973 Oil Embargo

During the years following the 1967 war in the Middle East, Nasser's successor, Egyptian president Anwar El-Sadat, tried to obtain U.S. and Soviet support to force Israeli withdrawal from occupied Arab territory, but these attempts did not succeed. Sadat, under mounting domestic and foreign pressure to go to war, decided that the only solution for Egypt was to mobilize the capabilities of the Arab world, especially its oil power, against Israel. In a major speech on December 28, 1972, Sadat stated that "Egypt realized the limits of Soviet aid and that it would take a new initiative to make the battle a pan-Arab one."

The Soviet press commented favorably on Sadat's pan-Arab battle plan and utilized the opportunity to remind Arabs that the U.S., Israel's main supporter, was becoming very vulnerable to the oil pressure that Sadat had recommended.

\textsuperscript{8}Ruben Andreasyan; cited in Klinghoffer, p. 161.
In a *New Times* article, Victor Kudryavtsev, one of the major Soviet commentators on the Middle East, stated:

A coordinated Arab policy could be especially effective in as much as Israel's main backer, the U.S., is displaying an increasing interest in the oil deposits of the Arabian Gulf and in Libya.49

He also warned the Arabs that "experience has convinced them that they can achieve real unity on a clearly expressed anti-imperialist basis and by promoting friendship and cooperation with the Soviet Union."

In an effort to promote the "anti-imperialist" Arab unity, the Soviet leadership helped sponsor two pan-Arab congresses of "progressive forces." On November 11, 1972, an international seminar with the theme "Oil as a Weapon in the Struggle against Imperialism and Israeli Aggression" was convened in Baghdad. According to the Soviet description of the seminar, which was attended by a Soviet delegation as well as by delegations from Arab countries, the object of the conference was to "expose the plunder of the Arab countries by the imperialist monopolies, and the link between these monopolies and Israel."50

Trying to form a pan-Arab front, Sadat had to work closely first with Libyan leader Muammar el-Qaddafi and then with Saudi Arabia's King Faisal. This type of Arab

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49 Victor Kudryavtsev; cited in Freedman, p. 108.

unity was disliked by Moscow since it was not a unity based on the "progressive, anti-imperialist" foundation the U.S.S.R. had long espoused. The Soviets distrusted the rising Saudi influence in the politics of the Middle East.

One Soviet commentator stated:

The Saudi monarchy . . . is bent on becoming the bulwark of reaction throughout the Arab world generally. Year after year it spends dozens, even hundreds of millions of dollars on what is calls "Arab Policy," the aim of which is to thwart social and economic reforms in other Arab states and subvert their cooperation with the socialist countries. Saudi Arabia "dollar diplomacy" is out to rally the Arab nations not for struggle against imperialism and Israeli aggression, for stronger national independence and social and economic advancement, but on purely religious foundations. Riyadh endlessly thumps the drum of the "jihad" or "holy war" that King Faisal has declared against "Communism-Zionism," that fantastic invention of present day obscurantists. . . . There is no doubt that Saudi oil could effectively influence Israel's American patrons. But here is what King Faisal said in an interview with the Cairo weekly Al-Mussawar, "It is useless to talk about the use of oil as a tool against the U.S. . . . It is dangerous even to think of it." Sheikh Ahmed Yamani, the Royal Minister for Oil and Mineral Wealth, explaining the King's viewpoint says: "It is our opinion that the best way for the Arabs to use their oil is as a basis for closer cooperation with the West, especially the U.S." 51

In a preparation for a pan-Arab war effort, Sadat turned his attention to developing his relationship with King Faisal, whose oil leverage over the U.S. was a critical factor in the Egyptian strategy against Israel. When the war escalated, the Saudis changed their position.

on the issue of the oil embargo against the U.S. What was King Faisal hoping to gain from injecting oil into the political arena? The causes for his policy transformation might be summarized as follows:

1. The increasing pressure from the Arab radicals, such as Libya's Qaddafi, who referred to the Saudi monarch as the "oil peddler." By championing the new Arab oil policy, Faisal emerged as the key figure in the Arab world.

2. The Saudis foresaw financial gains. In 1974 Saudi Arabia's oil revenue alone reached $19,400 million out of the $85,210 million realized by OPEC as a whole.52

3. The Saudis were concerned about their oil, which is their only natural asset. They realized that if they increased their oil production to the level advocated by the U.S., that is, twenty million barrels a day, their oil resources would be exhausted by the end of this century. Furthermore, they believed that, the longer their oil remains underground, the higher its price would go and, naturally, the more revenues they would earn.

4. Another factor that might have encouraged King Faisal to consider using the oil weapon was the rapid deterioration of the position of the Western oil companies in the Middle East. On January 23, 1973, the Shah

52"The Middle East: U.S. Policy, Israel, Oil and the Arab," Congressional Quarterly, April, 1974, p. 34.
of Iran dictated to the Western-owned oil companies operating in Iran the ultimatum that if they did not agree to Iranian terms they would lose access to Iranian oil once their current contracts expired. The oil companies capitulated to the Shah by March 1. The previous day Western-owned oil companies that formed the Iraqi Petroleum Company had signed an agreement with the Iraqi government in which they consented to the nationalization of their Kirkuk fields in return for fifteen million tons of oil.\textsuperscript{53} In addition, the Libyan leader Qaddafi had been cleverly playing the Western oil companies in his country against each other and securing increasing control over them.

5. Still another major factor that caused the change in Faisal's position on the use of the oil weapon was the realignment of alliance relationships throughout the Arab world, which saw a weakening in the movement toward Egyptian-Libyan union and the creation of an Egyptian-Saudi Arabian axis. This new axis became the dominant factor in the Middle East since the October war.

Soviet media gave prominent attention to the "energy crisis" in the U.S. that emphasized U.S. oil vulnerability. While urging the Arabs to use the oil weapon in their struggle against imperialism, the Soviet leaders were not

\textsuperscript{53}Middle East Monitor, March 15, 1973, p. 1.
happy with Sadat's choice of Saudi Arabia to be his principal Middle Eastern ally. The increasingly close relationship of Egypt and Saudi Arabia became a matter of concern for the Soviet leadership. An article by Y. Potomov in *New Times* discussing the new trends in inter-Arab politics stated:

The press in both Arab and Western countries has of late been focusing on the policy of Saudi Arabia. The reactionary Saudi monarchy, which receives large revenues from the oil monopolies, holds a conspicuous place in the plans of international imperialism. The imperialists, capitalizing on the difficulties experienced by the Arab countries because the settlement of the Middle East problem is dragging out owing to sabotage by Israel, are using the Saudi monarchy as a tool in their efforts to isolate these countries from the Soviet Union and the rest of the Socialist community, with an eye to abolishing the progressive Arab regimes. At the same time, the Saudi reaction, stinting no money, is out to attain its own hegemonistic goals in the Middle East, to undermine the positions of the national democratic forces, and to block progressive reform in this area.5

At the same time, the Saudi reaction, stinting no money, is out to attain its own hegemonistic goals in the Middle East, to undermine the positions of the national democratic forces, and to block progressive reform in this area.5

In an article about the Middle East, Georgi Mirsky, a major commentator on the area, emphasized the theme of the oil weapon, stating:

More important is the solidarity of the oil-producing Arab states. Although the Arab press has spoken a great deal in recent months about the oil weapon, not everybody took it seriously and many were astounded when after the outbreak of hostilities in October even such countries as Saudi Arabia and Kuwait announced an oil boycott of countries.

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54 Y. Potomov; cited in Freedman, p. 116.
supporting Israel (including a total embargo on oil exports to the U.S.).

When President Richard M. Nixon asked Congress for 2.2 billion dollars in aid for Israel, Radio Moscow, on October 18, 1973, used the occasion to highlight this American support and appealed to the Arabs to cut off the flow of oil to the West: "Favorable conditions now exist for Arab use of oil as an economic and political weapon against capitalist states which are supporting Israeli aggression."

On that same day, Libya announced that it was cutting off all oil exports to the U.S. Saudi Arabia followed suit the next day, with Kuwait, Qatar, Bahrain, and Dubai acting similarly on October 21. In addition to participation in the oil embargo, Bahrain ordered the U.S. to vacate the naval base it maintained there.

During the 1973-74 period, the Soviet press stressed the West's reliance on Arab oil and argued that great dependence on the Arabs would continue, thus strengthening the Arabs politically vis-à-vis the West. Soviet periodicals used terms such as "oil politics" and "political

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56Radio Moscow, October 18, 1973; cited in Freedman, p. 130.

57Freedman, p. 131.
weapon," maintaining that the energy crisis was a political question as well as an economic one and that the Arabs could not be blamed for politicizing oil since the colonial powers and Western oil companies had exploited them for a long time.

The Soviets approved and passed a "differentiated" embargo. An Izvestiia journalist wrote:

Special notice should be given to the fact that the Arab oil-producing states are legally exercising their right to dispose of their own natural resources and to pursue a carefully considered and, moreover, a differentiated policy in making oil deliveries to various countries.\(^5^8\)

Soviet analysts asserted that the 1973-74 embargo was successful because it occurred during a seller's market for oil, the Arab states had larger financial reserves than ever before, and Western oil stockpiles were not very great. In addition, Iran could not make up for decreased Arab exports. The Soviets advocated even more far-reaching steps. They maintained that the Arab embargo against South Africa, Rhodesia, and Portugal helped unify Arabs and black Africans against colonialism and racism. They also continued their call upon the Arabs to nationalize Western oil properties and to withdraw their oil revenues from Western banks to invest them in joint

\(^{58}\)From Izvestiia; cited in Klinghoffer, p. 163.
Soviet-Arab companies to which the Soviets would contribute equipment and technical know-how.\textsuperscript{59}

The Soviet media continued its twin themes of the American threat to the Arab states and continued American support for Israel throughout the first part of January, 1974, and played up U.S. Defense Secretary James Schlesinger's warning to the Arabs that they risked the use of force against them if they carried their oil embargo too far. Iraq, the U.S.S.R.'s closest friend in the Arab world, who took strong anti-Western action by nationalizing American and Dutch shares in the Basra Petroleum Company, was increasing oil production and breaking the embargo for lack of sufficient monetary reserves. Iraq's Minister of Oil and Minerals, Saadun Hammadi, indicated that his country was increasing production but supplying oil only to "friendly" states. Early in the embargo, Leonid Brezhnev made a personal appeal to the Iraqis on the front page of Pravda, calling upon them to use their oil resources to increase the effectiveness of the Arab struggle against aggression and foreign monopolies. But, although the Iraqis failed to participate actively in the embargo, the Soviets chose not to criticize them publicly. Boris Rachkov wrote that each Middle Eastern state could choose its own tactic in the

\textsuperscript{59}Klinghoffer, p. 164.
anti-imperialist struggle and that Iraq had chosen nationalization, implying that it was a stronger measure than the embargo. Radio Moscow did attack Libya for "leaking oil" to the U.S., but when Iran increased its production during the embargo, the Soviets avoided the subject for the sake of the good economic and political relations that were developing between their two countries. Rachkov went further, claiming that Iran was not trying to take over Arab markets and asserting that anti-Arab press accounts in Iran were not representative of Iranian thinking and that Iran favored an Israeli withdrawal from the occupied Arab territories.  

Following the disengagement agreement, Sadat began to urge the lifting of the oil embargo. His decision to terminate the embargo can be explained partially by his desire to reduce Soviet influence in the Middle East. The Saudis, the prime movers behind the embargo, distrusted Soviet designs in the Middle East. Their position was that a continuation of the oil embargo could lead to the furtherance of Soviet influence in the Arabian Gulf. They also believed that the oil embargo was weakening the economies of Western Europe, the U.S., and Japan, thus contributing to a relative increase in Soviet power. Sadat also might have thought that  

Ibid., p. 165.
the termination of the oil embargo would demonstrate Arab goodwill and help to increase American pressure on Israel for further withdrawal.

The termination of the 1973 oil embargo can be considered a significant defeat for Soviet diplomacy in the Middle East. The Soviet leaders called strongly for the maintenance of the embargo as a means of keeping the Arab world unified against the U.S. The U.S.S.R. also profited from the disarray in both NATO and EEC caused by the embargo. The Soviets attacked and discredited Henry Kissinger's "shuttle diplomacy," designed to bring about a disengagement agreement between Egypt and Israel in 1974-75, and hoped that by heating up the conflict in the Golan Heights they could prevent the oil-rich states from lifting the embargo. While the Syrian war of attrition against Israel was intensified, the Soviet Union urged the Arab states in very strong terms to maintain their oil embargo. On March 12, Radio Moscow broadcasted:

If today some Arab leaders are ready to surrender in the face of American pressure and lift the ban on oil before the demands (for a total Israeli withdrawal) are fulfilled, they are challenging the whole Arab world and the progressive forces of the entire world which insist on the continued use of the oil weapon.  

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Radio Moscow, March 12, 1974; cited in Freedman, p. 139.
Soviet response to the termination of the 1973 oil embargo can be summarized as follows:

1. The Soviets launched a public attack on Sadat, branding him a traitor to Nasser’s heritage, in an effort both to isolate him inside Egypt and to undermine his position in the Arab world.

2. They increased their support to Syria and Iraq, who opposed the Egyptian-Saudi Arabian alignment.

3. They moved closer to an old enemy, Qaddafi of Libya, to counter Egyptian-American rapprochement.

One consequence of the oil embargo was a major diplomatic effort on the part of the West to improve political and economic ties with the Arab world. The urgent need for secure access to Arab oil brought a greater role for France, Britain, West Germany, the U.S., and Japan in Middle Eastern affairs. Machinery, technology, and arms agreements with the West enhanced its interests in the area, and the Soviets began to warn the Arabs about increasing Western investment plans in Arab countries and about the "oil for technology" deals. Pravda capitalized on this theme, stating:

As the Wall Street Journal frankly writes, a theory has even cropped up among entrepreneurs which reasons that economic and political changes will come with industrialization of Arab countries. In other words, economic considerations are interwoven with the hope that influence of the dollar will lead to an "erosion" of Arab unity and a
consolidation of the position of the Western powers clientele in the Near East.\textsuperscript{62}

The Soviets managed to advance their economic interests during the 1973 embargo by reselling some of the oil purchased from Arab states to Western Europe. Although the Soviet oil purchases from the Arab states were part of a long-term agreement at a fixed price, the U.S.S.R. resold the oil at the new high prices and often realized a 300 per cent profit.\textsuperscript{63} The Netherlands was a prime target of the Arab embargo, but there are indications that the Soviets increased their oil sales to this country during the embargo period. There is also evidence that the Soviet increased oil exports to the U.S. For example, in 1972 Soviet oil sales to the American market were very small, with a total value reaching only $7,464,000. During the oil embargo, however, Soviet sales accelerated in late 1973 and early 1974, with the total value rising to $76,214,000 in 1973 and $33,283,000 for just the first two months of 1974. But the Soviets defended their oil sales, asserting that they were not destroying the effectiveness of the Arab embargo by making additional sales to the embargoed


\textsuperscript{63}Frank Gardner, "Not a Bad Profit for the Soviets--300%," Oil and Gas Journal, April 8, 1974, p. 51.
states. A Radio Moscow broadcast in Arabic stated this position, declaring that not even one extra ton of oil was being supplied to Western Europe. The Soviets pointed out that only four per cent of the oil consumed in Western Europe came from the Soviet Union.\(^6^4\)

The Soviet leaders were pleased with the dissension among the Western alliance during this time. Therefore they attacked the energy conference organized by the U.S. in February, 1974. They saw the conference as a means of ensuring West European dependence on U.S. oil companies and branded it anti-Arab since Arab representatives had not been invited. The Soviets suggested convening a "counter-conference" to include the Arab states, the U.S.S.R., and its allies.\(^6^5\)

In examining the role of the Soviet Union in the Arab embargo decision, it must be stressed that despite massive propaganda campaign efforts, actual Soviet influence was minimal. Soviet pressure to continue the embargo had no influence on the Arab leaders, whose only criteria were their own interests. The Soviets were not requested to intervene or even consulted about the political ramifications of the embargo, and it was lifted despite

\(^{64}\)Klinghoffer, p. 174.

their efforts to maintain it, demonstrating that the initiative for the embargo was Arab, not Soviet. Although the embargo did serve Soviet strategic objectives, it had a negative consequence for the U.S.S.R. as well; since the embargo, Arab oil-producing states started to charge the Soviets high prices in hard currency for their oil. There were also certain other side-effects which were not part of Soviet designs. The embargo increased the power and wealth of Saudi Arabia and other conservative anti-communist oil producers in the Arab Gulf area which were pursuing anti-Soviet policies intended to change the map of alignment in the Middle East, and it increased new strategic opportunities for the West in the Middle East that could tend to reduce Soviet influence and increase Soviet risks.
CHAPTER III

A NEW CENTER OF GRAVITY IN

THE MIDDLE EAST

Traditionally the Arabian Gulf's proximity to the U.S.S.R. has long made it of great interest to the Soviets apart from the value of its oil. The literature uses the Joachim von Ribbentrop-Vyacheslav Molotov discussion of 1939, when "the Soviet government expressed the desire for a sphere of influence south of Batum and Baku in the general direction of the Arabian Gulf," to refer to the Russian concern over this region. The oil factor added a new dimension to the region's strategic value for the Soviet foreign policy planners in this era in which oil has become so important to both Eastern and Western nations that it could influence the balance of power in the world.

1The names "Persian Gulf" and "Arabian Gulf" refer to the same body of water; the former is commonly used in Iran and the latter in other Middle Eastern countries. "Arabian Gulf" is used throughout the text of this paper.

2Mohammed Mughisuddin, Conflict and Cooperation in the Persian Gulf (New York, 1977), p. 116. It should be noted, however, that the Soviet ambition to the "south of Batum and Baku" was a German initiative designed to distract the Soviets from German locations in Europe that threatened Soviet security. See R. D. McLaurin and James M. Price, Soviet Middle East Policy since the October War (Alexandria, 1976), p. 10.
G. Drambyantz described the Gulf region as one of the "nerve junctions" which affect events in the Middle East. He compared the region to the "banana republics" of Latin America in being the victim of imperialist expansion, and he suggested that the Gulf's importance to the West has been determined chiefly by the exceptional place it holds in the oil business. This importance, according to his view, is not limited merely to the home market of the U.S., but also extends to the American global imperialist design. For example, Drambyantz states that 65 per cent of the fuel consumed by the U.S. forces in Vietnam was delivered from the Gulf region and that the same was the case with NATO fuel requirements in Europe.³

The principal theme of Soviet foreign policy toward the Arabian Gulf area centers around the importance of the U.S.S.R.'s being accepted as a superpower by the West. Although the U.S. and other Western nations conceded such a status to the Soviets in most of the Middle East, they seem determined to deny a superpower role to the Soviets in the Gulf region for the following reasons:

1. The Soviet Union has enjoyed continuous presence and involvement in most of the Middle East (Egypt, Syria, Iraq, and South and North Yemen) for more than two decades.

2. The Soviets are conceded to have significant political, economic, and military investments in these parts of the Middle East. In a press conference on June 6, 1974, U.S. Secretary of State Henry Kissinger stated that there is no American intention of expelling the Soviet Union from the Middle East. According to Rubinstein, the U.S.-Soviet bilateral talks on the Middle East that began in late 1969 marked the first recognition of the U.S.S.R. as a coming member of the Board of Directors of the region. But there are no parallel interests of a superpower status in the Gulf states. 

The Soviet Union is acutely aware of the European, Japanese, and growing American dependence on Gulf oil. One major objective of Soviet foreign policy in this area is the neutralization of Western Europe and the elimination of minimization of American influence over its oil policies. Aside from its strategic value, the Soviets wish to increase trade volume within the Gulf region, and in fact has already increased it by 85.8 per cent since 1973. From 1981 to 2001, Iran will ship 36.8 million cubic meters of natural gas per day to the Soviet

\[4\text{New York Times, June 7, 1974, p. 5.}\]

\[5\text{Alvin Z. Rubinstein, Red Star on the Nile (Princeton, 1977), p. 331.}\]
Union, which will in turn deliver 31.1 million cubic meters daily to Western Europe.  

Although the Soviet Union is in a relatively secure position with respect to its oil, the uncertainties of its future capabilities or production, and the increasing needs for oil for domestic growth as well as for East European requirements, could force the Soviet Union to import much greater quantities of Gulf crude oil in the 1980s. Estimates of future Soviet bloc oil requirements vary, making them difficult to predict in figures. Boris Rachkov suggested that the U.S.S.R. and its allies would need to import about 100 million tons of oil annually by 1980.  

A Central Intelligence Agency report produced more pessimistic figures, estimating that by 1985 the Soviet Union and Eastern Europe will require a minimum of 3.5 million b/d of imported oil. The bulk of Soviet oil imports comes from Iraq and is used to supply Soviet customers in Asia and Eastern Europe.  

Since 1965, many socialist states in Eastern Europe have concluded numerous oil import agreements with

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6Mughisuddin, pp. 124-127.

7Boris Rachkov, "The Russian Stake in the Middle East," New Middle East, No. 8 (May, 1969), pp. 36-37.

oil-producing countries in the Arabian Gulf region.\textsuperscript{9}

Most of these agreements were secured through barter agreements in which arms and other manufactured goods were exchanged for oil. In 1975, the Soviet Union's arms sales reached six billion dollars. The availability of money has a major influence upon Soviet willingness to transfer arms to the Gulf area by adding the incentive of hard-currency profits to the existing motives of political influence, ideological access, and strategic advantage.\textsuperscript{10}

Arms supplies constitute a very attractive offer for the Soviet leaders since it is difficult to compete with Western countries as a goods supplier or to fashion some kind of assets in which oil-producing countries could invest their hard currency earnings. Arms supplies provide the U.S.S.R. with a degree of control over client policies that would not otherwise be available. President Sadat has stated that the U.S.S.R. has used the supply of

\textsuperscript{9}Romania has arranged to import oil from Saudi Arabia, Libya, Iraq, Iran, and Kuwait; Bulgaria from Iran, Iraq, and Libya; East Germany from Iran, Iraq, and Libya; Poland from Iran, Iraq, and Saudi Arabia; Cezchoslovakia from Iraq and Libya; and Hungary from Iran and Iraq. In addition, Yugoslavia, which is not a regular member of CMEA, concluded agreements with Iran, Saudi Arabia, Iraq, Kuwait, and Oman. See Alawi Kayal, "The Control of Oil: East-West Rivalry in the Persian Gulf," unpublished doctoral dissertation, University of Colorado, Denver, Colorado, 1972, p. 240.

weapons and ammunition as an "instrument of policy leverage" to influence Egyptian action.\textsuperscript{11}

As an arena for Soviet penetration, the Arabian Gulf region is less promising to the U.S.S.R. than other parts of the Middle East. Politically Iraq is not as stable an ally as Egypt and there is no deep dispute in this area that can be exploited like the Arab-Israeli conflict.

The Petrodollar and the Process of Deradicalization

The use of oil revenues by the conservative Arabian Gulf regimes to assist the economies and the military capabilities of the confronting Arab states after the 1967 war brought about two types of change within the Middle East. The first is the growing power of the conservative Arab oil countries in shaping events in an anti-Soviet direction. The second change is the deradicalization of Egypt in its domestic as well as its external policies, commonly called de-Nasserization.\textsuperscript{12}

\textsuperscript{11}New York Times, interview, April 22, 1974.

\textsuperscript{12}The Soviets distrust de-Nasserization because it diminishes Egypt's economic and political ties to the U.S.S.R. The term encompasses a variety of policies, such as reliance on private foreign investment, reversal of Nasser's course of collectivist economy, and restoration of the bourgeois technocracy to political and social prominence. The Soviets see the U.S. as the guiding force for this new direction, exerting pressure through Saudi Arabia. See Rubinstein, p. 316.
The process of deradicalization started under Nasser, who had been considered the charismatic leader of the revolutionary Arabs. After the 1967 defeat, Nasser became the mediator between pro-Soviet radicals and pro-Western conservatives and began to pull back from leadership of the Arab radical states. In the United Nations, political realignment was evident during November of 1967, when "progressive" Egypt was aligned with "reactionary" Jordan in support of Security Council Resolution 242 (Syria and Iraq have refused to accept the resolution because of its implied recognition of Israel). Egypt's mediation in the Lebanese-Palestinian conflict of 1970 illustrates Cairo's changing political orientation from leadership of revolutionary forces to moderator between conservatives and radicals in the Middle East. Nasser's decision to withdraw the Egyptian army from Yemen in response to King Faisal's demand was another manifestation of Egypt's change to a mediator position. It is very doubtful that this transformation could have occurred without the financing Nasser received from conservative oil-producing regimes.

The October war demonstrated the increasing importance of oil as a political weapon. Oil revenues received by Egypt and Syria from Saudi Arabia and Kuwait made it possible to undertake the 1973 campaigns. Without the

\[13\text{Rubinstein, p. 38.}\]
oil revenues the confrontation states would never have been able to obtain the Soviet arms necessary to cope with Israel's supply of U.S. weapons. Egypt in 1973, with a $250 million foreign trade deficit and a gross national product of only $6.7 billion (slightly lower than that of Israel), was already spending about one-quarter of that GNP on military expenditures. Syria, with a much smaller GNP of some two billion dollars, was also spending one-quarter of it on military supplies. The Soviets were persuaded to supply arms to these Arab nations by monetary considerations, since Egypt could pay for arms in convertible currency needed to help finance their imports of Western technology and food. To deny Egypt weapons when it was backed by wealthy Gulf states might have encouraged it and other Arab states to persist in efforts to find alternate suppliers in Western Europe. At the same time resupplying Egypt with weapons complicated U.S. diplomacy in the area and helped to perpetuate NATO's disarray. It forced Washington to respond by increasing its arms shipments to Israel, thereby angering the Arabs and disturbing the West Europeans whose dependence on Middle Eastern oil made them fearful of the economic consequences of another Arab-Israeli war. Estimates of the

sums given the Soviets range from 300 to 700 million dollars.\textsuperscript{15}

There is little doubt that Egypt and Syria would not have been able to initiate the war without financial backing from Saudi Arabia. King Faisal had promised Sadat that Saudi Arabia would not only subsidize the war, but also cover Egypt's resulting debts. According to David Binder, "this was considered by Western diplomats to be crucial to President Sadat's decision to open the hostilities on October 6."\textsuperscript{16} King Faisal's decision to back Sadat with oil revenues was possibly an indication of his appreciation of Sadat's courageous act of expelling the Soviets from Egypt.

Soviet writer Pavel Demchenko analyzed the rising role of petrodollars in Middle Eastern politics and commented on the increasing Saudi influence:

As "petrodollars" penetrate other Arab countries they promote the development of the private sector with them, basically in the non-productive sphere, and strengthen nationalist and right-wing religious tendencies. The Saudis have thus spent billions of dollars in their efforts to turn Egypt towards a conservative course. . . . It is paradoxical fact that dollars are almost Saudi Arabia's only weapon in the contemporary Arab world. . . . In addition, the Saudis feared a strengthening of Lebanon's national-progressives forces and a radicalization of the Palestine Resistance Movement.

\textsuperscript{15}Rubinstein, p. 242.

The role of Saudi Arabia and its allies increases when relations between other Arab countries worsen and Saudi Arabia acts as an intermediary.\textsuperscript{17}

Another Soviet journalist saw the rising Saudi influence as responsible for Sadat's anti-Sovietism and suggested that in August, 1970, only a month and a half after Sadat assumed power, Saudi Arabia persuaded him to let the U.S. know that he was willing to pursue an anti-Soviet policy if American diplomacy would, in turn, take a position on the Middle East question favorable to him.\textsuperscript{18}

The rising prestige of Saudi Arabia and the growing dependence of Egypt and Syria on petrodollars were demonstrated in a series of economic and political developments during 1976. Continuation of serious economic problems in Egypt and their threat to Sadat's regime made him seek large-scale financial assistance abroad. After Sadat visited the Arab Gulf states, four of the oil producers—Saudi Arabia, Qatar, Kuwait, and the United Arab Emirates—established the Gulf Organization for Development in Egypt to aid agriculture, industry, and housing projects in Cairo's twenty billion dollar economic plan between 1976 and 1980.\textsuperscript{19}


\textsuperscript{18}R. Ovinnikov, "The Middle East: The Shifting Sands of Separate Agreements," \textit{International Affairs} (Moscow), No. 12 (December, 1978), p. 31.

\textsuperscript{19}Stone, p. 25.
Although not directly involved in the Lebanese conflict, Saudi Arabia and Kuwait had acquired sufficient power by virtue of their economic position to become intermediaries in the conflict among the Arabs. During the Rabat summit, the oil-rich Arab states exerted their financial influence to moderate the position of anti-Western leaders and succeeded in winning King Hussein's agreement to a declaration that the Palestine Liberation Organization was the sole and legitimate representative of the Palestinian people. In return for his agreement to renounce Jordan's claim to the West Bank, Hussein was promised a $300 million grant by Saudi Arabia and other oil-rich Gulf states. Other Arab states securing funds at the Rabat summit were Egypt and Syria, which obtained one billion dollars annually over a period of four years, and the PLO, which was awarded fifty million dollars.²⁶

Oil revenues enabled the Saudis to enhance their regional role through the support of moderate regimes, tempering their behavior by making them more dependent. In 1977, Egypt received $2.5 billion in economic and military aid; Syria, $1 billion; Jordan, $500 million; and North Yemen, $150 million; plus undisclosed amounts

²⁶Middle East Monitor, November 15, 1974, pp. 2-4.
for the PLO.\textsuperscript{21} Oil revenue from Iran also contributed to Sadat's pro-Western policy. After the October war, the Shah made a foreign aid commitment to Egypt estimated at about one billion dollars.\textsuperscript{22}

Further evidence of Saudi Arabia's deradicalization campaign in the Arab world emerged at the December, 1976 meeting of OPEC oil ministers in Qatar. The Saudis opposed the majority decision to raise the price of oil by 15 per cent and declared their intention to limit their price increase to 5 per cent, at the same time raising production from 8.3 to 10 million barrels per day to create added downward pressure on the price increase.\textsuperscript{23} This concession to Western interests was harshly criticized by a Soviet commentator who suggested:

> The policy of Saudi Arabia on oil has been overtly pro-imperialist and anti-Arab in nature. Half of the $53 billion reserves which Saudi Arabia had at the end of 1976 was deposited in U.S. banks, or giltedged securities on the U.S. market. The Saudis blocked moves to increase the posted prices by over 5 per cent in view of inflation. The Saudi government has been able to force its will on OPEC and at the same time split the Arab front in that organization and undermine the efforts of the


\textsuperscript{22}John K. Cooley, "Iran, the Palestinian, the the Gulf," \textit{Foreign Affairs}, LVII (Summer, 1979), 1023.

progressive Arab oil-producing countries. The Saudis have become a strike force for the imperialist world in new adventurist campaigns designed to widen the sphere of their subversive activity.\(^2\)

Until 1973, Egypt was dependent on the Soviet Union, not only for its massive arms supply but for replacements and the long-term financing required to maintain a high level of military expenditure. The financial backing received from Saudi oil revenues made it possible for Sadat to shop for arms in new markets in Western Europe and the U.S. Saudi money also enabled Egypt to seek out new sources of foreign investment for economic development; thus, the Soviets lost their leverage on the Egyptian economy. Since 1973 there has been a totally new political realignment among the Arab states. Egyptian foreign and domestic policies were deradicalized, and the Syrian stand against any dealing with Israel was considerably modified. Political leadership among the Arab states had shifted from Nasserist radicals to new leaders who were willing to work with the status quo. The Soviet position was eroded and its role as a major political alternative to the U.S. was diminished.

The Saudis continued to resist further upward turns of OPEC oil prices, as well as any moves away from the dollar as the standard for pricing oil, which would have

had disastrous effects on the U.S. economy. However, the Saudi position on many issues vital to U.S. interests might be influenced by the outcome of the Egyptian-Israeli negotiations on the Palestinian problem. A new round of Arab-Israeli hostilities, in combination with the Saudis' perception of U.S. helplessness in Iran and a new tide of radicalism in the area, could make Saudi Arabia reassess its relationship with the U.S. in a way not helpful to the new American role in the Middle East.
CHAPTER IV

CONCLUSION

This paper has attempted to evaluate the oil industry in the U.S.S.R. and has contended that the important unanswered question with regard to it does not relate to Soviet oil reserves but, rather, to the capacity of the Soviet Union to meet its national requirements from domestic sources for the short-term future and the nation's ability to obtain or develop its own technology to extract the highly inaccessible Siberian oil resources. Thus, Middle Eastern oil will play an important role in Soviet energy policy during the 1980s, but its dependence on this oil, compared to that of the West, will be minimal. The reasons that encourage Soviet oil imports from the Middle East can be summarized as follows:

1. It is usually cheaper for the Soviets to import a given quantity of Middle Eastern oil than to produce the same amount in Siberia and then transport it to the populated Western area of the U.S.S.R.

2. The Soviets also resell some of this imported Middle Eastern oil at a profit, with the added advantage of conserving their own oil reserves.
3. The Soviets can assist the nationalization policies of oil-producing states by providing a market for oil from nationalized fields. The Soviet role as a middleman for Middle Eastern oil provides hard currency and opportunities for the use of oil as a power leverage. Soviet oil imports from those countries which had nationalized their oil resources reinforces their political alignment in a common battle against Western oil companies. The Soviet middleman role has enabled Iraq and Libya, for example, to break up the Western monopolies in the international oil market.

4. The Soviets are able to save on transportation costs by reselling Middle Eastern oil to some of their European and Asian customers rather than exporting oil directly. This factor will be a key advantage in the future if Japan becomes a purchaser of Siberian oil. The Soviets could then import oil from the Middle East and export Siberian oil via the Pacific, cutting down on lengthy and expensive transportation routes from Siberia to the western part of the U.S.S.R.¹

5. Fifth, the Soviet Union prefers to increase imports rather than reduce exports since its oil imports from the Middle East are arranged by means of barter agreements, whereas its oil exports to the West are paid

by hard currency. Oil exports to the West are also beneficial to the U.S.S.R, however, for they enable the Soviets to acquire its technology, one of the basic motivations underlying Soviet oil exports.²

6. The Soviets hope to break the economic and political power of the major oil companies, the so-called "Seven Sisters," namely, Exxon (formerly Standard Oil of New Jersey), the Royal Dutch Shell Group, Mobil, Texaco, Gulf, Standard Oil of California, and British Petroleum.³

The Soviet Union has extended its diplomatic, political, and economic assistance to some Middle Eastern oil-producing states in connection with major issues affecting their oil industries, such as nationalization of Western oil companies, oil embargoes, higher prices, and quantity of production. The Soviets support OPEC's large price increases and accuse those countries, like Saudi Arabia, which advocate moderate increases or raise their oil production to keep the price down of collaborating with the imperialist design of the West. When the Chinese signed a number of government-to-government agreements to deliver their oil at prices lower than OPEC's, Novaye Vremya, a Moscow magazine reflecting the views of the Soviet

²Boris Rachkov, Oil Nationalism and Imperialism (New Delhi, 1967), p. 74.

³Ibid., p. 9.
Ministry of Foreign Affairs, accused Peking of attempting to undermine OPEC oil prices. The Soviet Union benefits from OPEC price increases, and its own price adjustments correspond to OPEC's price increases; for example, Soviet crude oil export prices increased 2.3 per cent to $15.25 per barrel on March 22, 1979.

The Soviet position on the quantity of oil production in the Middle East has changed with time. Before 1973, when oil supply was not a problem and prices were generally low, the Soviets accused Western oil companies of keeping production low in "progressive" countries like Iraq and Libya to deprive them of extra income as a pressure tactic while increasing production in "pro-imperialist" states like Saudi Arabia. Since 1973, when the oil-producing Arab states decided to limit production in order to maintain higher prices, the Soviets have changed their position and have begun to support lower production policies and to attack those states that increased oil production as having succumbed to U.S. influence.

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*"Newsletter,"* *Oil and Gas Journal*, June 18, 1979, p. 3.


*D. Penzin, "New Found in the Tussle with the Oil Magnates,"* *International Affairs* (Moscow), No. 1 (January, 1977), pp. 53-54.
The Soviet Union encourages Middle Eastern oil-producing states to build up their currency reserves through oil sales and to develop their own banking system. The Soviets also emphasize the crucial importance of Middle Eastern oil revenues to the West, suggesting, "were the Arab countries to withdraw if only half of their holdings (from West European and American banks) this would seriously shake the finances of many West European countries."

Now it is time to ask the ultimate questions about Soviet oil politics in the Middle East. Does the Soviet Union have an overall strategy toward Middle Eastern oil? If so, what are the dividends to the Soviet Union? What are the U.S.S.R.'s rewards for two decades of involvement and investment in Middle Eastern oil politics? Two types of gain result from Soviet investment. The first is tangible short-term advantages in the Soviets' bilateral relationship with an oil-producing state, such as political or economic influence. The other kind of benefit may be examined in a broader context of regional and global dimension.

If Iraq is taken as an example to assess the first type of Soviet gain, i.e., the immediate payoff, one might

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characterize the Soviet investment in this country as a limited success. For twenty years, Moscow has supplied 90 per cent of Iraq's defense hardware needs, and recent sales of MIG-23 and TU-22 military aircraft and advanced SA-5 missiles to Iraq have totaled two billion dollars in value.\(^9\) Since the nationalization of its oil resources in 1972, Iraq has extended naval facilities to the U.S.S.R. at Umm Qasr. The bulk of Soviet oil imports comes from Iraq.\(^10\) However, despite all these strong ties which were formalized into a treaty of friendship and cooperation on April 9, 1972,\(^11\) as well as considerable Soviet involvement and assistance in the development of Iraq's northern Rumaila oil fields, there is no sign that the Soviets have been able to translate their position in Iraq into real economic and political influence. Since 1973, Iraq's imports from the Soviet bloc have dropped from 25 per cent to 9 per cent of the nation's total imports. In 1972, during the U.S.S.R.'s first major involvement in the development and marketing of Iraqi oil, Soviet leaders emphasized the need to include the Iraqi Communist Party in a national front coalition with the ruling Ba'ath Party. But the national


\(^10\)Klinghoffer, p. 139.

front proved to be a transient feature of Iraqi politics. In May of 1978, twenty-one members of the Iraqi Communist Party were hanged for attempting to set up communist cells within the armed forces.\textsuperscript{12} Under the leadership of new Iraqi president Saddam Hussein, who recently replaced the ailing Ahmed Al-Baker, the government was cracking down on the Communist Party and drawing away from the Soviets.

The Iraqis recently concluded trade pacts with Britain, West Germany, and Japan and an arms deal with France, and they have grown closer to the conservative rulers of Saudi Arabia. On July 28, 1979, Iraqi authorities executed thirty-four plotters who attempted to overthrow the government. Some observers of the Iraqi scene speculated that the aim of the plotters was to reverse President Hussein's movement toward the West and renew close ties with the Soviet Union.\textsuperscript{13} One Palestinian Liberation Organization official stated, "The U.S. is lambasted in the Iraqi press, yet welcomed as a trading partner."\textsuperscript{14}

The record of Soviet-Iraqi relations suggests that the Soviet Union's investment in Iraq was not very profitable, for it did not bring about political concessions

\textsuperscript{12}Price, p. 7.

\textsuperscript{13}The Dallas Morning News, July 31, 1979, p. 1.

\textsuperscript{14}Ned Temko, "Iraqi Coup Shows Strains in Fabric of Arab Alliance," Christian Science Monitor, July 31, 1979, p. 4.
or even agreement on economic issues, as the import and export figures indicate. But one must avoid analyzing Soviet gains only in a bilateral relationship; one must also consider the broader consequences of the relationship for Soviet policy. "The dimension of strategic context," as Rubenstein suggests, "helps to explain why superpowers persist in giving aid to client states in the face of continued failures to bring about changes in their behavior." The overall goal of Soviet foreign policy toward the Middle East is the elimination of Western influence in the area. This key principle explains why the Soviet leadership has been willing to pay a substantial price in economic and military aid without being able to modify the behavior of the ruling Middle Eastern elites. The Soviets' long-term goal is to reinforce an anti-Western movement in the policies of Middle Eastern nations or at least to reverse anti-Soviet trends. If the removal of Western influence from the Middle East lies at the heart of Soviet oil politics in this region, Iraq then represents the clearest example of a successful case. At one time Baghdad was an anti-communist headquarters and the center of British oil operations in the Middle East. Now Iraq has a treaty relationship with the U.S.S.R. and the Soviets have found leverage in Iraqi

15Rubinstein, p. 341.
anti-Western actions, especially in connection with the Arab-Israeli conflict, to reenter the Middle Eastern scene.

Although the impetus for the decision resulting in the Arab oil embargo in 1973 lay among Middle Eastern leaders, the Soviets benefited from that decision to reinforce anti-Western sentiment and clearly supported the embargo to enhance its bargaining leverage with the U.S. The elimination of Western influence in the Middle East was the moving factor behind Soviet support of the embargo decision. But the embargo resulted in an unanticipated consequence for Soviet foreign policy planners; that unwanted development was the shift in the balance of political force within the Middle East in favor of the conservative states, especially of Saudi Arabia. This development resulted from Saudi Arabia's role as the prime mover behind the oil embargo against the U.S. and some West European states who support Israel. The Saudis are now in an excellent position to influence events in the Middle East, and their obvious hostility to communism and distrust of Soviet intentions are manifested in their foreign as well as in their domestic policies.

The rising Saudi influence since the 1973 oil embargo is a development that did not please the Soviet Union when it extended its full support to the embargo decision. The embargo resulted in a new structure of leadership in
The new oil wealth puts more power into the hands of the conservative Gulf states, a development that helped to bring about the present situation in which the U.S.S.R. is denied superpower status in the Arab-Israeli conflict.

There is little the Soviets can do to attract the new Middle Eastern oil revenues, for there is little market in the Middle East for Soviet exports with the exception of arms and the Soviets lack the competitive advantage which could compete with Western technology and goods. The Soviet bloc could not project its friendly relationship with the Middle Eastern states into economic

presence; in the long run the West is recognized by Middle Eastern leaders as better able to fulfill their countries' needs for modernization and industrialization.\textsuperscript{17} As a result, interdependence is evolving between the Middle Eastern oil-producing states and the West that prevents the Soviets from becoming a substitute for the West. For this fundamental reason none of the Middle Eastern oil-producing states is likely to become permanently anti-Western.

With regard to oil, the Gulf states, especially Saudi Arabia, will support a policy which the West can tolerate, while at the same time preserving OPEC's unity and power; for the erosion of Western power, as the result of a drastic increase of oil prices, would create a destabilizing situation for these countries. The consequences of such a situation would be detrimental to Gulf oil-producing countries because it would enhance more radical political elements which are waiting for an opportunity to overthrow the existing social and political order.

Middle Eastern oil gave Soviet leaders a leverage of power with which to bargain with the West. It is not likely that the Soviets ever evolved an overall strategy for Middle Eastern oil that could shape long-range

\textsuperscript{17}Ibid., p. 284.
direction. The basic motivation for the Soviet leaders was to remove Western oil influence in this region, but the Soviet Union was not solely responsible for the major oil decisions that reduced this influence. It was a convergence of interests between the Soviet Union and the Middle East oil-producing states that explains the success of such policies as the nationalization of Western oil companies and the 1973 Arab oil embargo. Soviet interests were helped by these events to reinforce anti-Western behavior, but in all these oil policies the Soviets tended to follow events rather than to direct them. Their failure to extend the oil embargo of 1973 to a longer period is one example of the reactive nature of Soviet oil politics in the Middle East. Further developing this theme, Heikal, the most influential journalist in the Arab world and the best writer who has been exposed to the internal dynamics of dealing with the Soviet leaders, stated:

The Soviets had been sucked into the complexities of the Middle East scene before they realized what was happening. Only when they had become deeply involved did they begin to ask themselves whether the Arabs wanted them there for their own sake, or simply because the Arabs had become disenchanted with the West.\textsuperscript{18}

The new oil revenues in the Middle East, social inequities, education, industrialization, technology, and

\textsuperscript{18}Ibid., p. 173.
contact with the world at large all play a part in the process that necessitates change. The ability of the oil-producing states to adapt to change, as the Iranian revolution has proven, is not great; and, as a result, many tensions are likely to continue to build up in the region, eventually to explode at some time in the future. Under these circumstances, how do Soviet leaders perceive their interest, since the U.S.S.R. will be less able to fill its oil needs and those of Eastern Europe in the 1980s? Will the Soviet role be agitating and ambitious, or will it proceed cautiously? The latest decision of the new regime in Iran to break the two billion dollar contract for a second natural gas pipeline to the Soviet Union indicates that instability in the Middle Eastern region could have an adverse effect on Soviet interests, and the Iranian oil cutoff in 1978 has had a serious impact on Eastern Europe. "This taught us we cannot simply squeeze by as we have in the past with haphazard day-to-day measures," said a leading Polish economist who called for a "long-term plan to provide a cushion for emergencies in similar unstable situations."\(^{20}\)

To meet increasing East European demands for oil, a rapidly growing rate of consumption in the U.S.S.R.

\(^{19}\)Christian Science Monitor, July 30, 1979, p. 2.

itself, and formidable hostility and distrust on the part of small but rich Gulf oil states, the Soviets may pursue a more pragmatic course adjusted to the political realities of unstable Middle Eastern politics. With more pragmatism and restraint, Soviet leaders hope to motivate Western investments in the development of Siberian oil and gas resources; unrestrained Soviet behavior, on the other hand, would jeopardize the process of U.S. and Japanese investment. For example, in 1977 when Soviet-American relations were tense and troubled, the Carter administration put oil technology and equipment on the list of strategic items that required political clearance before they could be exported to the Soviet Union. But in December of 1978, the Carter administration approved twenty-two oil technology licenses that had been held up since the summer of 1977 when tension was reduced to prepare the ground for Strategic Arms Limitation Talks.\textsuperscript{21}

In short, the involvement of the U.S.S.R. in the affairs of the oil-producing countries of the Middle East, springing from a combination of interests, has had varied results in the past two decades. The Soviets have sought both short- and long-term benefits in its relationships with Middle Eastern nations, such as relatively inexpensive oil with which to supply both their own energy needs

\textsuperscript{21}New York Times, February 10, 1979, p. 25.
and those of East European states, the forging of close bilateral ties with various oil-producing states, and the decrease or elimination of Western influence in the Middle Eastern area. But various events and trends in the region, such as the termination of the 1973 oil embargo and the deradicalization of policies in Egypt and Syria, have demonstrated that Soviet activities in the Middle East have not always achieved their goals; as a result, the exact nature of the U.S.S.R.'s relations with the Middle East cannot be predicted, and the future of the Soviet oil industry in terms of production, imports, and exports remains uncertain.
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