The 1973 oil crisis began in October 1973 when the members of the Organization of Arab Petroleum Exporting Countries (OAPEC, consisting of the Arab members of OPEC plus Egypt and Syria) proclaimed an oil embargo. By the end of the embargo in March 1974, the price of oil had risen from US$3 per barrel to nearly $12 globally; US prices were significantly higher. The embargo caused an oil crisis, or "shock", with many short- and long-term effects on global politics and the global economy. It was later called the "first oil shock", followed by the 1979 oil crisis, termed the "second oil shock."

The crisis had a major impact on international relations and created a rift within NATO. Some European nations and Japan sought to disassociate themselves from United States foreign policy in the Middle East to avoid being targeted by the boycott. Arab oil producers linked any future policy changes to peace between the belligerents. To address this, the Nixon Administration began multilateral negotiations with the combatants. They arranged for Israel to pull back from the Sinai Peninsula and the Golan Heights. By January 18, 1974, US Secretary of State Henry Kissinger had negotiated an Israeli troop withdrawal from parts of the Sinai Peninsula. The promise of a negotiated settlement between Israel and Syria was enough to convince Arab oil producers to lift the embargo in March 1974.

On August 15, 1971, the United States unilaterally pulled out of the Bretton Woods Accord. The US abandoned the Gold Exchange Standard whereby the value of the dollar had been pegged to the price of gold and all other currencies were pegged to the dollar, whose value was left to "float" (rise and fall according to market demand). Shortly thereafter, Britain followed, floating the pound sterling. The other industrialized nations followed suit with their respective currencies. Anticipating that currency values would fluctuate unpredictably for a time, the industrialized nations increased their reserves (by expanding their money supplies) in amounts far greater than before. The result was a depreciation of the dollar and other industrialized nations' currencies. Because oil was priced in dollars, oil producers' real income decreased. In September 1971, OPEC issued a joint communiqué stating that, from then on, they would price oil in terms of a fixed amount of gold.

This contributed to the "Oil Shock". After 1971, OPEC was slow to readjust prices to reflect this depreciation. From 1947 to 1967, the dollar price of oil had risen by less than two percent per year. Until the oil shock, the price had also remained fairly stable versus other currencies and commodities. OPEC ministers had not developed institutional mechanisms to update prices in sync with changing market conditions, so their real incomes lagged. The substantial price increases of 1973–1974 largely returned their prices and corresponding incomes to Bretton Woods levels in terms of commodities such as gold.

On October 6, 1973, Syria and Egypt, with support from other Arab nations, launched a surprise attack on Israel, on Yom Kippur. This renewal of hostilities in the Arab–Israeli conflict released the underlying economic pressure on oil prices. At the time, Iran was the world's second-largest oil exporter and a close US ally. Weeks later, the Shah of Iran said in an interview: "Of course [the price of oil] is going to rise... Certainly! And how!... You've [Western nations] increased the price of the wheat you sell us by 300 percent, and the same for sugar and cement... You buy our crude oil and sell it back to us, refined as petrochemicals, at a hundred times the price you've paid us... It's only fair that, from now on, you should pay more for oil. Let's say ten times more."

In response to American aid to Israel, on October 16, 1973, OPEC raised the posted price of oil by 70%, to $5.11 a barrel. The following day, oil ministers agreed to the embargo, a cut in production by five percent from September's output and to continue to cut production in five percent monthly increments until their economic and political objectives were met. On October 19, Nixon requested Congress to appropriate $2.2 billion in emergency aid to Israel, including $1.5 billion in outright grants. George Lenczowski notes, "Military supplies did not exhaust Nixon's eagerness to prevent Israel's collapse...This [$2.2 billion] decision triggered a collective OPEC response." Libya immediately announced it would embargo oil shipments to the United States. Saudi Arabia and the other Arab oil-producing states joined the embargo on October 20, 1973. At their Kuwait meeting, OAPEC proclaimed the embargo that curbed exports to various countries and blocked all oil deliveries to the US as a "principal hostile country".

Some of the income was dispensed in the form of aid to other underdeveloped nations whose economies had been caught between higher oil prices and lower prices for their own export commodities, amid shrinking Western demand. Much went for arms purchases that exacerbated political tensions, particularly in the Middle East. Saudi Arabia spent over 100 billion dollars in the ensuing decades for helping spread its fundamentalist interpretation of Islam, known as Wahhabism, throughout the world, via religious charities such al-Haramain Foundation, which often also distributed funds to violent Sunni extremist groups such as Al-Qaeda and the Taliban.

In the United States, scholars argue that there already existed a negotiated settlement based on equality between both parties prior to 1973. The possibility that the Middle East could become another superpower confrontation with the USSR was of more concern to the US than oil. Further, interest groups and government agencies more worried about energy were no match for Kissinger's dominance. In the US production, distribution and price disruptions "have been held responsible for recessions, periods of excessive inflation, reduced productivity, and lower economic growth."

The embargo had a negative influence on the US economy by causing immediate demands to address the threats to U.S. energy security. On an international level, the price increases changed competitive positions in many industries, such as automobiles. Macroeconomic problems consisted of both inflationary and deflationary impacts. The embargo left oil companies searching for new ways to increase oil supplies, even in rugged terrain such as the Arctic. Finding oil and developing new fields usually required five to ten years before significant production.

The embargo was not uniform across Europe. Of the nine members of the European Economic Community (EEC), the Netherlands faced a complete embargo, the UK and France received almost uninterrupted supplies (having refused to allow America to use their airfields and embargoed arms and supplies to both the Arabs and the Israelis), while the other six faced partial cutbacks. The UK had traditionally been an ally of Israel, and Harold Wilson's government supported the Israelis during the Six-Day War. His successor, Ted Heath, reversed this policy in 1970, calling for Israel to withdraw to its pre-1967 borders.

Despite being relatively unaffected by the embargo, the UK nonetheless faced an oil crisis of its own - a series of strikes by coal miners and railroad workers over the winter of 1973–74 became a major factor in the change of government. Heath asked the British to heat only one room in their houses over the winter. The UK, Germany, Italy, Switzerland and Norway banned flying, driving and boating on Sundays. Sweden rationed gasoline and heating oil. The Netherlands imposed prison sentences for those who used more than their ration of electricity.

Price controls exacerbated the crisis in the US. The system limited the price of "old oil" (that which had already been discovered) while allowing newly discovered oil to be sold at a higher price to encourage investment. Predictably, old oil was withdrawn from the market, creating greater scarcity. The rule also discouraged development of alternative energies. The rule had been intended to promote oil exploration. Scarcity was addressed by rationing (as in many countries). Motorists faced long lines at gas stations beginning in summer 1972 and increasing by summer 1973.

In 1973, Nixon named William E. Simon as the first Administrator of the Federal Energy Office, a short-term organization created to coordinate the response to the embargo. Simon allocated states the same amount of domestic oil for 1974 that each had consumed in 1972, which worked for states whose populations were not increasing. In other states, lines at gasoline stations were common. The American Automobile Association reported that in the last week of February 1974, 20% of American gasoline stations had no fuel.

To help reduce consumption, in 1974 a national maximum speed limit of 55 mph (about 88 km/h) was imposed through the Emergency Highway Energy Conservation Act. Development of the Strategic Petroleum Reserve began in 1975, and in 1977 the cabinet-level Department of Energy was created, followed by the National Energy Act of 1978.[citation needed] On November 28, 1995, Bill Clinton signed the National Highway Designation Act, ending the federal 55 mph (89 km/h) speed limit, allowing states to restore their prior maximum speed limit.

The energy crisis led to greater interest in renewable energy, nuclear power and domestic fossil fuels. There is criticism that American energy policies since the crisis have been dominated by crisis-mentality thinking, promoting expensive quick fixes and single-shot solutions that ignore market and technology realities. Instead of providing stable rules that support basic research while leaving plenty of scope for entrepreneurship and innovation, congresses and presidents have repeatedly backed policies which promise solutions that are politically expedient, but whose prospects are doubtful.

In 2004, declassified documents revealed that the U.S. was so distraught by the rise in oil prices and being challenged by under-developed countries that they briefly considered military action to forcibly seize Middle Eastern oilfields in late 1973. Although no explicit plan was mentioned, a conversation between U.S. Secretary of Defense James Schlesinger and British Ambassador to the United States Lord Cromer revealed Schlesinger had told him that "it was no longer obvious to him that the U.S. could not use force." British Prime Minister Edward Heath was so worried by this prospect that he ordered a British intelligence estimate of U.S. intentions, which concluded America "might consider it could not tolerate a situation in which the U.S. and its allies were at the mercy of a small group of unreasonable countries," and that they would prefer a rapid operation to seize oilfields in Saudi Arabia and Kuwait, and possibly Abu Dhabi in military action was decided upon. Although the Soviet response to such an act would likely not involve force, intelligence warned "the American occupation would need to last 10 years as the West developed alternative energy sources, and would result in the 'total alienation' of the Arabs and much of the rest of the Third World."

Although lacking historical connections to the Middle East, Japan was the country most dependent on Arab oil. 71% of its imported oil came from the Middle East in 1970. On November 7, 1973, the Saudi and Kuwaiti governments declared Japan a "nonfriendly" country to encourage it to change its noninvolvement policy. It received a 5% production cut in December, causing a panic. On November 22, Japan issued a statement "asserting that Israel should withdraw from all of the 1967 territories, advocating Palestinian self-determination, and threatening to reconsider its policy toward Israel if Israel refused to accept these preconditions". By December 25, Japan was considered an Arab-friendly state.

The USSR's invasion of Afghanistan was only one sign of insecurity in the region, also marked by increased American weapons sales, technology, and outright military presence. Saudi Arabia and Iran became increasingly dependent on American security assurances to manage both external and internal threats, including increased military competition between them over increased oil revenues. Both states were competing for preeminence in the Persian Gulf and using increased revenues to fund expanded militaries. By 1979, Saudi arms purchases from the US exceeded five times Israel's. Another motive for the large scale purchase of arms from the US by Saudi Arabia was the failure of the Shah during January 1979 to maintain control of Iran, a non-Arabic but largely Shiite Muslim nation, which fell to a theocratic Islamist government under the Ayatollah Ruhollah Khomeini in the wake of the 1979 Iranian Revolution. Saudi Arabia, on the other hand, is an Arab, largely Sunni Muslim nation headed by a near absolutist monarchy. In the wake of the Iranian revolution the Saudis were forced to deal with the prospect of internal destabilization via the radicalism of Islamism, a reality which would quickly be revealed in the seizure of the Grand Mosque in Mecca by Wahhabi extremists during November 1979 and a Shiite revolt in the oil rich Al-Hasa region of Saudi Arabia in December of the same year. In November 2010, Wikileaks leaked confidential diplomatic cables pertaining to the United States and its allies which revealed that the late Saudi King Abdullah urged the United States to attack Iran in order to destroy its potential nuclear weapons program, describing Iran as "a snake whose head should be cut off without any procrastination."

The crisis reduced the demand for large cars. Japanese imports, primarily the Toyota Corona, the Toyota Corolla, the Datsun B210, the Datsun 510, the Honda Civic, the Mitsubishi Galant (a captive import from Chrysler sold as the Dodge Colt), the Subaru DL, and later the Honda Accord all had four cylinder engines that were more fuel efficient than the typical American V8 and six cylinder engines. Japanese imports became mass-market leaders with unibody construction and front-wheel drive, which became de facto standards.

Some buyers lamented the small size of the first Japanese compacts, and both Toyota and Nissan (then known as Datsun) introduced larger cars such as the Toyota Corona Mark II, the Toyota Cressida, the Mazda 616 and Datsun 810, which added passenger space and amenities such as air conditioning, power steering, AM-FM radios, and even power windows and central locking without increasing the price of the vehicle. A decade after the 1973 oil crisis, Honda, Toyota and Nissan, affected by the 1981 voluntary export restraints, opened US assembly plants and established their luxury divisions (Acura, Lexus and Infiniti, respectively) to distinguish themselves from their mass-market brands.

Compact trucks were introduced, such as the Toyota Hilux and the Datsun Truck, followed by the Mazda Truck (sold as the Ford Courier), and the Isuzu-built Chevrolet LUV. Mitsubishi rebranded its Forte as the Dodge D-50 a few years after the oil crisis. Mazda, Mitsubishi and Isuzu had joint partnerships with Ford, Chrysler, and GM, respectively. Later the American makers introduced their domestic replacements (Ford Ranger, Dodge Dakota and the Chevrolet S10/GMC S-15), ending their captive import policy.

An increase in imported cars into North America forced General Motors, Ford and Chrysler to introduce smaller and fuel-efficient models for domestic sales. The Dodge Omni / Plymouth Horizon from Chrysler, the Ford Fiesta and the Chevrolet Chevette all had four-cylinder engines and room for at least four passengers by the late 1970s. By 1985, the average American vehicle moved 17.4 miles per gallon, compared to 13.5 in 1970. The improvements stayed even though the price of a barrel of oil remained constant at $12 from 1974 to 1979. Sales of large sedans for most makes (except Chrysler products) recovered within two model years of the 1973 crisis. The Cadillac DeVille and Fleetwood, Buick Electra, Oldsmobile 98, Lincoln Continental, Mercury Marquis, and various other luxury oriented sedans became popular again in the mid-1970s. The only full-size models that did not recover were lower price models such as the Chevrolet Bel Air, and Ford Galaxie 500. Slightly smaller, mid-size models such as the Oldsmobile Cutlass, Chevrolet Monte Carlo, Ford Thunderbird and various other models sold well.

Federal safety standards, such as NHTSA Federal Motor Vehicle Safety Standard 215 (pertaining to safety bumpers), and compacts like the 1974 Mustang I were a prelude to the DOT "downsize" revision of vehicle categories. By 1977, GM's full-sized cars reflected the crisis. By 1979, virtually all "full-size" American cars had shrunk, featuring smaller engines and smaller outside dimensions. Chrysler ended production of their full-sized luxury sedans at the end of the 1981 model year, moving instead to a full front-wheel drive lineup for 1982 (except for the M-body Dodge Diplomat/Plymouth Gran Fury and Chrysler New Yorker Fifth Avenue sedans).

OPEC soon lost its preeminent position, and in 1981, its production was surpassed by that of other countries. Additionally, its own member nations were divided. Saudi Arabia, trying to recover market share, increased production, pushing prices down, shrinking or eliminating profits for high-cost producers. The world price, which had peaked during the 1979 energy crisis at nearly $40 per barrel, decreased during the 1980s to less than $10 per barrel. Adjusted for inflation, oil briefly fell back to pre-1973 levels. This "sale" price was a windfall for oil-importing nations, both developing and developed.