



## Book The Oil Kings

### How the U.S., Iran, and Saudi Arabia Changed the Balance of Power in the Middle East

Andrew Scott Cooper  
Simon & Schuster, 2011

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## Recommendation

If you think the US's alternative energy policy is forging ahead, think again. It has been stalled for decades, largely because of US reliance on oil from Iran and Saudi Arabia. Andrew Scott Cooper, a historian and NGO activist, offers a dense presentation about the geopolitics of oil from 1969 to 1977. He focuses on the politicians and diplomats of the time, covering their relationships and limitations. Cooper discusses the flawed decision making that shaped American foreign policy and the US's dependence on foreign oil. He tells a powerful story, much of it revealed for the first time, since he culled research from newly declassified documents. While the book occasionally gets bogged down in minutiae that distract from the more interesting main narrative, *BooksInShort* recommends it to anyone intrigued by the convoluted mechanics of oil geopolitics.

## Take-Aways

- In 1969, Persian Gulf nations delivered one-third of the developed world's oil.
- To secure oil supplies through the volatile Gulf region, President Richard Nixon's administration promoted the "Nixon Doctrine."
- The Nixon Doctrine's aim was to supply pro-US regimes, especially Iran, with arms.
- The Shah of Iran, a staunch anticommunist, spent much of his country's oil wealth on military purchases.
- Nixon secretly allowed Iran to raise oil prices so the Shah could buy US weapons.
- This decision started a huge wealth transfer from the West to Middle Eastern oil nations.
- In 1972, Nixon covertly promised to supply Iran with nuclear technology.
- The US cultivated its relations with Saudi Arabia to counterbalance Iran's growing power and help break the 1973 Arab oil embargo.
- When Saudi Arabia broke OPEC's ranks by opposing price increases, Iran's economy nose-dived.
- By 1977, rebellion exploded in Iran, leading to the Shah's overthrow and the nation's subsequent turmoil. In 1980, Iran's Emperor died in Egypt, a stateless exile.

## Summary

### A Pivotal Time

The late 1960s and early 1970s were a pivotal time in strategic world relationships, particularly in the Middle East. At the time, Persian Gulf oil fields produced one-third of the developed world's oil. Almost all of Japan's petroleum imports came through the Gulf, as did 55% of the oil "NATO Europe" used. These trade connections made the region's security crucial, particularly Iran's, since much of the world's oil moved by ship through its Strait of Hormuz, a narrow, potentially vulnerable marine passageway. Yet Great Britain recalled its military from the Persian Gulf, and the US, preoccupied with the Vietnam War, had only "a seaplane tender and two destroyers" in the region. Seeing the need to safeguard the flow of oil through the volatile Gulf region, President Richard Nixon and his national security adviser, Henry Kissinger, fostered the idea that the US should develop and arm regional surrogate nations to protect American national interests. This policy became known as the "Nixon Doctrine."

"Mohammad Reza Shah Pahlavi was a hard man to say no to in the spring of 1969."

In the Persian Gulf, the US turned to its old ally, the Shah of Iran. Mohammad Reza Shah Pahlavi, a staunch anticommunist, became his country's leader after the CIA and British intelligence sponsored a coup in 1953 that overthrew his predecessor, the popular, pro-Soviet prime minister Mohammad Mossadegh. The taint of foreign intervention in Iran's domestic affairs stained the Shah's rule as absolute monarch. Yet the Shah remained independent from US influence in some areas, specifically oil production, much to the chagrin of the CIA and successive US presidential administrations.

## Clandestine Dealings with the Shah

By the late 1960s, US officials began worrying that the Shah's military expenditures – which always ranged from one-quarter to one-third of Iran's spending during the Shah's reign – were cutting into the funding of important civilian programs that could support Iran's domestic progress. As resentment against the Shah built inside Iran, US officials thought a revolution was imminent, but as long as oil prices and production grew, Iran enjoyed political stability.

“Oil was the Shah's greatest source of strength and also his Achilles' heel.”

While the Shah pursued independent policies in domestic areas, he also worked closely with the CIA, allowing it to set up spy facilities in Iran, mainly directed against the Soviet Union. To repay the Shah, maintain him as an ally in the region and help him buy more US arms, President Nixon made an extraordinary offer: In a secret meeting on May 14, 1970, he gave the Shah's emissary permission to raise oil prices. Nixon knowingly allowed this transfer of wealth from the West to the Middle Eastern oil kingdoms. But Iran's spending soon exceeded its oil revenues. As Washington debated Iran's future, Nixon decided to cultivate Saudi Arabia as a US ally, alongside Iran, in his “Twin Pillars” policy.

## Saudi Arabia's Ascent

Unlike the Shah, Saudi Arabia's ruler, King Faisal, believed that oil prices should increase gradually, so as not to disrupt national economies. US imports from Saudi Arabia grew from \$13.5 million in 1970 to more than \$79 million by early 1972, but Nixon failed to develop a cohesive energy policy because his administration was focused on the '72 re-election campaign. Instead, 64 federal agencies worked independently of one another on fuel issues, with no direction from Nixon's cabinet.

“A greater share of oil revenues allowed pro-US oil potentates to develop their economies while buying the weapons they needed to defend themselves and the free world's oil supplies.”

Nixon appointed former Texas governor John Connally, an important fund-raiser for the president's re-election bid, to negotiate with the Saudis about their push to control more of Aramco, the joint US-Saudi oil producer in Saudi Arabia. King Faisal won a huge concession, paid for by Western oil consumers: The Saudis gained a 25% participation deal and an eventual 51% controlling interest in Aramco. Years later, transcripts revealed that Kissinger had encouraged the Saudis to negotiate hard against the US oil companies; Kissinger, uncomfortable with economic issues, considered the oil companies greedy and wanted the Saudis as vital allies.

“The Nixon-Pahlavi relationship was based on a shared interest in grand strategy and geopolitics and a mutual fascination with power and its many uses.”

Envyng the Saudis' victory, the Shah issued an ultimatum to his Western partners in the National Iranian Oil Company to relinquish control of the corporation to Iran. The consortium agreed, setting the tone for a new shift in oil power. In September 1973, Colonel Muammar al-Qaddafi of Libya expropriated 51% of foreign oil firms' assets in his nation, raised oil prices 30% and stopped accepting US dollars as payment for oil exports. Saudi Arabia and Egypt then reduced their oil production. In October 1973, eight Arab armies invaded Israel in the fourth Arab-Israeli war. When the US rearmed Israel, the Arab oil-producing nations objected. They increased oil prices and imposed a complete oil embargo against the US – the first time nations used oil as an economic weapon.

“When it came to Iran, Washington's dividing lines between power, money and access were often blurred.”

To break the embargo, Kissinger and Nixon approached the Saudis about forging a bilateral relationship. This meant the US would provide economic assistance and buttress King Faisal's regime against internal and external political and military threats. In exchange, the Saudis would raise oil production and refuse to grant their OPEC partners a requested price increase. US and Saudi officials finalized their new petro-military-political alliance at a party for 1,400 guests at Saudi Arabia's US Embassy in June 1974.

## Post-Nixon Pandemonium in Iran

When Richard Nixon resigned from the presidency on August 8, 1974, following the Watergate scandal, the Shah lost an important ally. Moreover, despite the support the Shah received from Nixon, he had feared the president as the only American who could thwart his ambitions. But the Shah dismissed Nixon's successor, Gerald Ford, as weak – an impression Kissinger planted. Recognizing his own strong position, the Shah promoted Iran as the center of a new regional political bloc composed of Ethiopia, Israel, Australia, India, Indonesia, South Africa and New Zealand. He set out to collect on Nixon's 1972 promise to sell Iran nuclear power plants and fuel.

“In foreign affairs as in domestic politics, the Shah's brinksmanship was driven by a self-perpetuating money chase.”

Iran's flamboyant military purchases, complicated by its weakening economy, alarmed experts in the Department of Defense and the CIA, who feared the Shah would become more nationalistic and more closely aligned with anti-US Arab nations. But these agencies, as well as Kissinger, thought the Shah was vulnerable to a leftist coup. They dismissed the possibility that the Ayatollah Khomeini, a right-wing Shiite cleric then exiled in Iraq, posed any threat to Iran.

““This Qaddafi is a real nut,’ the Shah warned Kissinger. ‘He is making trouble.’”

In autumn 1974, Kissinger visited Iran and accepted the Shah's offer of surplus Iranian oil at a discounted price. This would skirt OPEC pricing, give dollars to Iran and help build the new US strategic oil reserve. But the deal had serious legal and political issues, so Kissinger had to sell it to Ford. If the arrangement failed, Iran threatened to raise oil prices to aid its domestic economy.

“Kissinger let the Shah increase oil prices because he believed oil revenues would cushion the pro-American monarchies of the Persian Gulf from internal revolt and external invasion.”

To deal with the Shah during this sensitive period, Kissinger hired former Nixon treasury secretary George Shultz, who by the fall of 1974 had become president of Bechtel, an international engineering firm. This meant that Shultz was acting in both a diplomatic and a corporate sales capacity in Iran. The Ford administration had calculated that if the Shah purchased nuclear facilities from US firms, it would generate \$6.4 billion in revenues for the US. Kissinger favored this purchase as a way to bring Iranian petrodollars back into the American economy. After 18 months of bilateral negotiations, the parties reached an impasse. But when Kissinger met the Shah in 1975, he reached a possible agreement, bringing home a plan for Iran to buy \$12.5 billion in US nuclear reactors, while selling oil to the US below the OPEC price. The deal met continuing opposition.

## **The Politics of Oil**

In March 1975, the assassination of King Faisal shook the Middle East. Saddam Hussein’s massacre of Kurds in Iraq delivered another shock. Iran and the CIA had earlier supported the Kurds, but the Shah abandoned them as part of a deal with Hussein. The Shah’s duplicity greatly concerned Israel, which relied on Iran for its oil.

“Henry Kissinger had personalized relations with the Shah, hoarded information, and sidelined the Shah’s critics in the White House.”

While visiting President Ford in May 1975, the Shah said he was developing a plan with Egypt to invade Saudi Arabia. He also said Iran would boost oil prices by 30% to 35%, a move that could destabilize world economies. At the time, the US’s military and commercial presence in Iran was booming: Some 40,000 Americans lived and worked there, often creating culture clashes as their casual dress and inappropriate behavior raised the ire of the conservative Islamic population. When the US Embassy in Tehran reported the deteriorating security situation inside Iran, including an increase in the killings of Americans by leftist groups, Kissinger dismissed it.

“There is no indication that Kissinger briefed his successors on the byzantine deals he had negotiated.”

By the summer of 1975, a global economic contraction led to a drop in oil production, which hit Iran hard: Decreased oil revenues spawned a financial crisis and social unrest. In June, students in Qum rioted, advocating the return of the Ayatollah Khomeini. Since the Shah had outlawed opposition parties, he crushed the uprising. But in Washington, more officials questioned the Shah’s judgment in using oil as leverage in political blackmail. This view eroded Kissinger’s influence and pitted him against the growing number of anti-Shah officials in the White House.

“Television viewers in Iran and elsewhere watched the astonishing spectacle of their king being tear-gassed on the American president’s front lawn.”

In 1976, rising oil prices strained Western economies. European communist parties were attaining power in Spain, Portugal and Italy. Syria invaded Lebanon to contain a civil war between Lebanese Christians and Muslims. When gunmen assassinated the US ambassador to the Lebanon, Ford ordered 1,400 Americans to leave the nation; the Saudis provided security for the evacuees. Grateful for the support and for the Saudis’ promise to hold the line on oil price increases, Ford agreed to sell them more weapons: \$6 billion in military hardware over a two-year period. Only Iran had purchased more.

## **The Collapse of the Shah**

In November 1976, Jimmy Carter won the presidential election. As Ford’s term drew to an end, it grew increasingly clear that the Iran policies he, Kissinger and Nixon promulgated had failed to produce a pro-US ally. Kissinger, given his own questionable actions, decided not to turn over key documents detailing his agreements and discussions with the Shah to the incoming Carter administration. Today, the location of these papers – as well as their content – remains a mystery.

“Perhaps it was appropriate, given everything that had happened the past nine years, that the fuse of revolution had been lit on the White House lawn.”

With many world economies staggering under the load of increasing oil prices, all eyes turned to the OPEC meeting in December 1976. When every member except Saudi Arabia voted to increase prices in two stages, the Saudis balked, announcing they would raise prices by only 5%, while also increasing their oil output. This was bad news for Iran, which desperately needed more oil revenue. It also altered the US’s strategic Mideast relationships, as the Saudis asserted themselves as the new oil power brokers.

“Pride comes before a fall, although in [Kissinger’s] case it’s more conceit than pride.” (The Shah)

By January 1977, Iran was broke. The Shah accused the Saudis of betraying OPEC. One Iranian court minister noted that his country had “squandered every cent we had only to find ourselves checkmated by a single move from Saudi Arabia.” Since Kissinger had failed to brief the Carter team on his convoluted arms-oil-CIA deals with the Shah, the new administration lacked critical information about the history governing the delicate Iran-US relationship. And Carter’s fresh diplomatic team at Tehran’s US Embassy had never served in an Islamic nation.

“The industrialized world will have to realize that the era of their terrific progress and even more terrific income and wealth based on cheap oil is finished.”  
(The Shah)

By the summer of 1977, Iran was suffering from political paralysis, a depressed economy, rolling electrical blackouts and water shortages. Unemployment surged as workers flocked to Tehran from the countryside looking for work. South Tehran became a slum, and wealthy Iranians sensed it was time to leave. To save the regime, the Shah fired key ministers who had been entrusted with building low-cost housing and making other civic improvements. The changes were too little and too late. During the Shah’s 12th and final visit to Washington, D.C., in November 1977, Iranian student demonstrators rioted simultaneously outside the White House and in downtown Tehran. The tide had turned and would wash the Shah away. Mohammad Reza Shah Pahlavi, Iran’s Emperor and King of Kings, died three years later, a stateless exile in Egypt.

## **About the Author**

