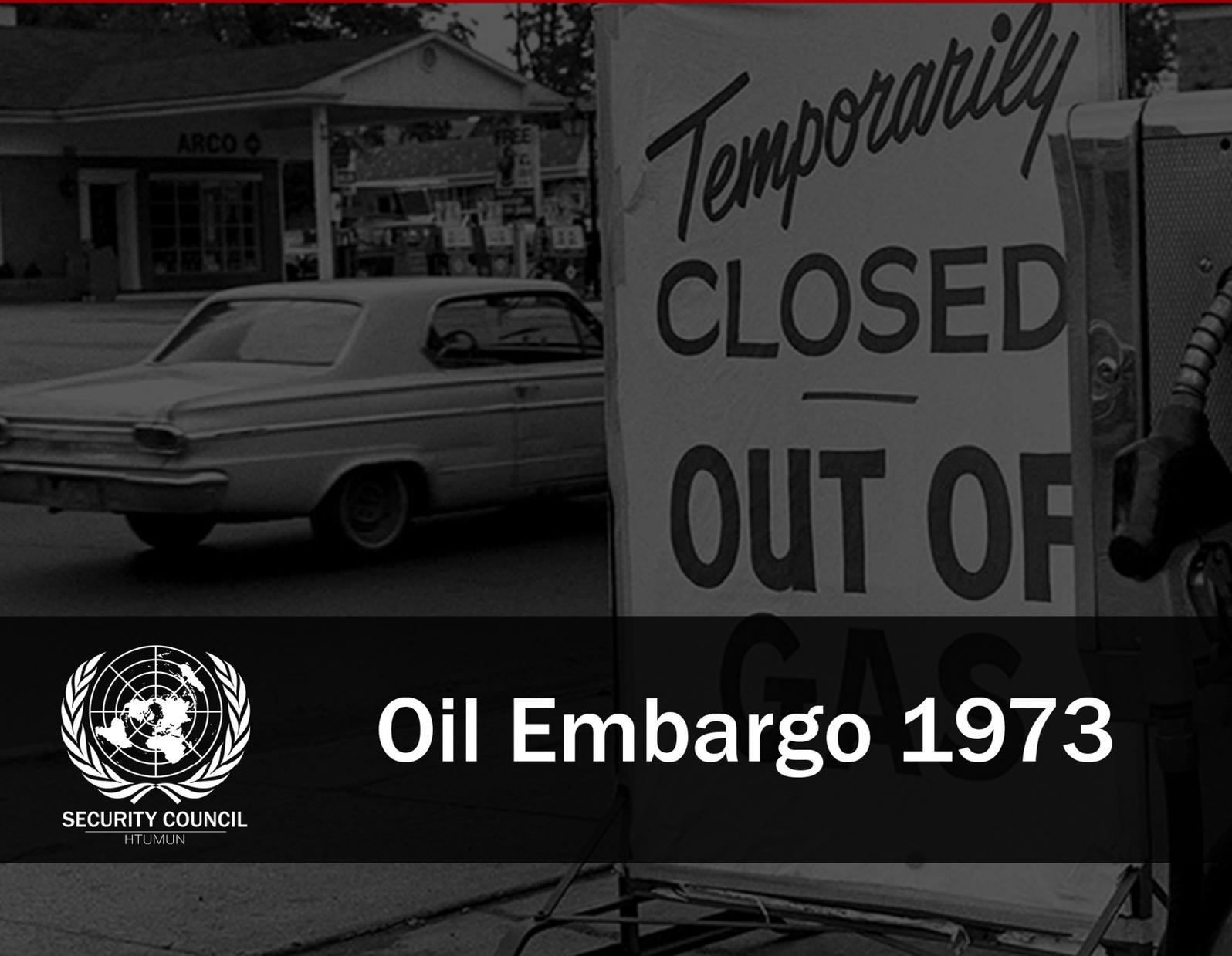




HTU MUN

TOPIC GUIDE



Oil Embargo 1973



NOTE: The date of our debate will be on the 25th of October, 1973, so every information or fact after that date will NOT BE ADMISSIBLE.

Topic Overview

The 1973 oil embargo began in October 1973 when the members of the Organization of Arab Petroleum Exporting Countries proclaimed an oil embargo. The embargo was targeted at nations perceived as supporting Israel during the Yom Kippur War. The initial nations targeted were Canada, Japan, the Netherlands, the United Kingdom and the United States with the embargo also later extended to Portugal, Rhodesia and South Africa. By the end of the embargo in March 1974, the price of oil had risen nearly 400%, from US\$3 per barrel to nearly \$12 globally; US prices were significantly higher.

A review of the history of oil prices reveals they've never been the same since. The chart below tracks both nominal and inflation-adjusted oil prices since 1946. During the OPEC oil embargo, inflation-adjusted oil prices went up from \$25.97 per barrel (bbl.) in 1973 to \$46.35 per barrel (bbl.) in 1974. By comparison, the inflation adjusted oil price in 2018 is \$70.62 per barrel (bbl.).

quantify the impact of work alone on personal identity, self-esteem and social recognition, most mental health professionals agree that the workplace environment can have a significant impact on an individual's mental well-being.





Reasons behind the Embargo

In 1971, President Nixon prompted the embargo when he decided to take the United States off of the gold standard. As a result, countries could no longer redeem the U.S. dollars in their foreign exchange reserves for gold. With this action, Nixon went against the 1944 Bretton Woods Agreement. His move sent the price of gold skyrocketing. The history of the gold standard reveals this was inevitable. But Nixon's action was so sudden and unexpected that it also sent the value of the dollar down.

The plummeting value of the dollar hurt OPEC countries. Their oil contracts were priced in U.S. dollars. That meant their revenue fell along with the dollar. The cost of imports that were denominated in other currencies stayed the same or rose. OPEC even considered pricing oil in gold, instead of dollars, to keep revenue from disappearing.

For OPEC, the last straw came when the United States supported Israel against Egypt in the Yom Kippur War. On October 19, 1973, Nixon requested \$2.2 billion from Congress in emergency military aid for Israel. The Arab members of OPEC responded by halting oil exports to the United States and other Israeli allies. Egypt, Syria, and Israel declared a truce on October 25, 1973. But OPEC continued the embargo until March 1974. By then, oil prices had skyrocketed from \$2.90/barrel to \$11.65/barrel.

Effects of the Embargo

The oil embargo is widely blamed for causing the 1973-1975 recession. But U.S. government policies really caused the recession and the stagflation that accompanied it. They included Nixon's wage-price controls and the Federal Reserve's stop-go monetary policy. Wage-price controls forced companies to keep wages high, which meant businesses laid off workers to reduce costs. At the same time, they couldn't lower prices to stimulate demand. It had fallen when people lost their jobs.



To make matters worse, the Fed raised and lowered interest rates so many times that businesses were unable to plan for the future. As a result, companies kept prices high which worsened inflation. They were afraid to hire new workers, worsening the recession. But Fed officials learned this lesson from the history of U.S. recessions. Since then, they've been consistent in their actions. More important, they clearly signal their intentions well ahead of time.

The oil embargo aggravated inflation, already at 10 percent for some commodities, by raising oil prices. It came at a vulnerable time for the U.S. economy. Domestic oil producers were running at full tilt. They were unable to produce more oil to make up the slack. Furthermore, U.S. oil production had declined as a percentage of world output.

It also worsened the recession. First, higher gas prices meant consumers had less money to spend on other goods and services. This lowered demand. It also weakened consumer confidence. People were forced to change habits, making it feel like a crisis that the government tried unsuccessfully to resolve. This lack of confidence made people spend less.

For example, drivers were forced to wait in lines that often snaked around the block. They woke up before dawn or waited until dusk to avoid the lines. Gas stations posted color-coded signs: green when gas was available, yellow when it was rationed, and red when it was gone. States introduced odd-even rationing: drivers with license plates ending with odd numbers could get gas on odd-numbered days.

The Yom Kippur War

The Yom Kippur War was an armed conflict fought from the 6th to the 25th of October, 1973 between Israel and an Arab coalition composed mainly of Egypt and Syria.

It is the Fourth Arab-Israeli war. The conflict began with the sudden attack of the Egyptian and Syrian armies: such aggression took the Israeli political and military leadership by surprise and placed Israel's armed forces in great difficulty. The Egyptian



troops, which were well equipped with Soviet anti-tank and anti-aircraft missiles, successfully crossed the Suez Canal.

Despite their great losses, they were able to push back Israeli counter-attacks. Meanwhile, the Syrian forces occupied the Golan Heights. However, following fierce combats, the Israelis managed to defeat the Syrian tanks in the Golan Heights: they successfully started counterattacking the Syrians in the Sinai, they crossed the canal and advanced towards Egypt.

Thanks to the intervention of the United States and the Soviet Union, an escalation of the conflict was avoided, and a “ceasefire” was accomplished.

The war ended therefore without resolute results from the military point of view. However, it demonstrated that the Arabs were able to defend themselves from Israel.

In Israel, the sudden war had caused strong political controversies that culminated in the resignation of Prime Minister Golda Meir, the Defense Minister Moshe Dayan, and Chief of Staff David Elazar.

Resources

<https://schoolhistory.co.uk/notes/yom-kippur-war/>

<https://www.britannica.com/science/petroleum>

https://en.wikipedia.org/wiki/1973_oil_crisis

<https://www.thebalance.com/opec-oil-embargo-causes-and-effects-of-the-crisis-3305806>

https://www.jstor.org/stable/27908218?seq=1#page_scan_tab_contents