duction. By the 1960s, serious tensions began to strain the fabric of the international marketplace. These tensions stemmed from the fact that the exporting nations collected their royalties on the basis of an officially established "posted price" rather than the actual market price of the oil. However, supply continued to outstrip demand, a process accelerated by the discovery of huge oil and gas deposits in North Africa in the mid-60s. These discoveries were accompanied by the rush of the larger U. S. independents into the new fields and resulted in a new flood of crude entering an already swollen market. The majors proved unable to maintain price levels and by 1968 the posted price of Kuwaiti crude was down to $1.59 per bbl. while actual market prices were about 40¢ lower.[30] However, royalties continued to be calculated on the basis of posted prices, putting additional pressure on the oil companies' profits during a period of already low prices. When the oil companies sought to reduce supply by curtailing production, this course of action placed them squarely in contradiction with the interests of the exporting nations, who had become increasingly dependent upon royalty payments as a major source of national income. Saudi revenues from oil, for example, skyrocketed from $4.3 million in 1945 to $662.6 million in 1965.[31] As they were immunized from the effects of the oil glut by means of their fixed posted prices, the exporting nations viewed any move to curtail production as posing a threat to their continued economic development — a process upon which their political stability largely rested.

Recognizing this potential threat, the exporting nations increasingly sought to end their total dependence upon the Anglo-American majors and began to look to other companies as a means of maintaining production levels. Especially aggressive in this regard were the Italian and French state-owned companies, which had grown restive under U. S. domination of the European market, and which were anxious to secure their own production reserves. In 1967 the French-owned E.R.A.P. and C.F.P., as well as the Italian E.N.I., entered into negotiations with the Iraqi government regarding producing in the recently nationalized Iraqi reserves, which the majors had refused to develop.[32] Needless to say, this action was viewed with alarm by the majors. Equally ominous was the introduction of Soviet-produced oil on the international markets during this period — a potential source of oil completely outside the control of the majors.[33]

Aggravating the glut on the international market was the fact that the American domestic market remained off limits to foreign oil. The U. S. market comprises the largest single source of demand for refined petroleum products, 43.2% of the total world demand in 1965.[34] Moreover, due to the efforts by producers aimed at controlling production in the name of "conservation," petroleum prices in the U. S. remained at a substantially higher level than those paid on the international market. Leading these "conservation" efforts were such government bodies as the Texas Railroad Commission, which controlled the oil and gas production within the state. Throughout the 60s, Texas wells were only permitted to pump eight to ten days a month, thereby providing for, as *Fortune* magazine put it, "one of the neatest systems ever invented for keeping [prices] up."[35] However, in the face of ever increasing supplies of cheaper foreign crude, strict import quotas were necessarily erected in 1959. Here the political muscle of the domestic producers was apparent, with spokesmen like Rayburn and Johnson of Texas in the House and Kerr of Oklahoma in the Senate willing to push through the quotas despite opposition from energy consuming industries and the misgivings of some of the internationally oriented majors. By 1965 the U. S. average price of $2.86 versus the posted price of Kuwaiti crude of $1.59[36] indicated the success of the domestic producers in their battle to maintain high prices. However, higher U. S. domestic prices coupled with import quotas continued to pose serious problems for the international producer since "there is a much larger surplus and correspondingly, much lower prices on the world market than would be the case if the U. S. was part of the international trading system."[37]

IV

By the end of the 1960s, the major international companies found themselves between a rock and a hard spot. Unable to restrict production in the face of hostility by the exporting nations, cut off from the lucrative U. S. market, and threatened by competition from a new generation of international producers, the majors were faced with what seemed an inevitable decline in crude prices and corporate prices. Some oil economists were forecasting prices for a barrel of crude would eventually retreat to $1.00, or roughly production costs plus royalties.[38] But although these forecasts made economic sense, they could not account for a series of political as well as economic developments, developments that began in Libya in 1969.

Libya, along with Algeria and other North African countries, was a relative newcomer to the international marketplace, producing 1.1 billion bbl. in 1969 against none in 1960.[39] Another striking feature of Libyan production was its domination by large independents outside of the traditional majors. In 1970, independents such as Occidental, Bunker Hunt, Continental, Marathon, and Amerada accounted for 51.2% of Libyan production, in contrast to four companies' (Standard-Calif., Exxon, Texaco, and Mobil) complete monopoly on Saudi crude. This was partially the result of Libyan King Idris's conscious decision to avoid total dependence on the Anglo-American majors for production of his country's crude, and partially the result of the unwillingness of the